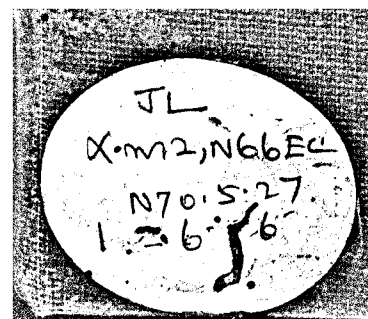
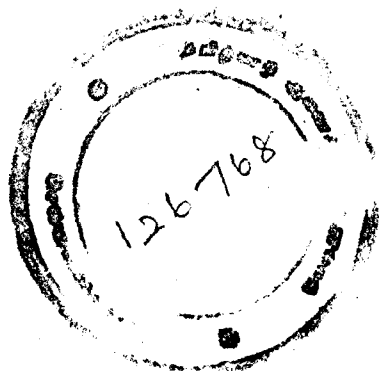






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ECONOMIC AND POLITICAL WEEKLY

Founder-Editor : Sachin Chaudhuri

Vol V No 27 July 4, 1970

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ECONOMIC AND POLITICAL WEEKLY

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Towards a New Balance ?

IT became apparent about two years ago that, given the alternative uses of naphtha in petrochemicals and fertilisers, a shortage of it would emerge about 1972. With only 1.8 million tonnes of naphtha to be available for fertiliser production by the end of the Fourth Plan, only 1.6 million tonnes of nitrogen could be derived from this base. In effect this meant that only the existing plants and projects under construction could, at an 80 per cent level of capacity utilisation, get naphtha for nitrogen manufacture. The Fourth Plan aims at a five million tonne capacity of N, so the other productive units would have to be based on other feedstock.

For all the conscious orientation towards a coal base — because coal is abundantly available in the country — there were two points that have gone against it. First, the coal base is more expensive compared to the naphtha reform base or the other heavy petroleum residue feedstock base, both in terms of capital investment required and cost of production in rupees per tonne of ammonia. It would be difficult therefore to entice private entrepreneurs to venture there. Secondly, the technology has not yet been tried out with Indian coals. Enough experience with the coal-based technology will become available with the three coal-based plants to come up in the Fourth Plan. (The size of the three plants has therefore been pegged low at about 229,000 tonnes of nitrogen capacity per plant.)

The remaining alternatives were heavy petroleum feedstock and imported ammonia. Ammonia was ruled out at one time because its import was expensive compared to import of naphtha or crude which could then be reformed and 'topped', respectively, to yield not just the ammonia but also other by-products to be put to other uses. Also, the Fourth and Fifth Plans have a ratio of N:P₂O₅ as 2:1. At one time it had seemed that we could procure only 200,000 tonnes of ammonia. So, with the Fourth Plan's P₂O₅ target, the available ammonia import would not yield the required output of N. The choice, therefore, seemed to fall on crude which, with crude topping units, could be made to yield naphtha as well as by-products which could be otherwise used.

This seems to have changed now precisely because ammonia has become available for seven years from Iran (one million tonnes) and Kuwait (0.5 million tonnes). That this has been preferred to the alternative crude feedstock may be because negotiations have secured a comparatively cheap price — earlier, officially unconfirmed, reports to the contrary notwithstanding. Ammonia is a by-product in many of the oil-producing countries and its direct cost is small. It is not generally traded so its price is in the shady zone where it is largely determined by bargaining.

However, Government has now decided to reserve imported ammonia for use only in public sector fertiliser plants. As a policy decision this is significant for two reasons. First, it signifies a reversal of a direction assumed in 1965-66 of making entry into the fertiliser industry particularly easy for the private sector. Instead, since Government is responsible for negotiating the price and quantum of ammonia import it is also to become the beneficiary of such negotiations. Incidentally, this may be an index of a new confidence in FACT's and FCI's ability to design and execute projects on a vast scale and to a schedule. The Tata fertiliser project has been approved only after the Tatas offered to use any petroleum-based feedstock, specified by Government. Secondly, and as a corollary to the fact that Government is no longer desperate to attract the private sector at any cost (the Birla project near Goa being the epitome of this desperation), it may be that Government is feeling easier on the fertiliser front. To all appearances fertiliser consumption has levelled off in the past year or two and, despite this, the harvests have not been affected.

Yet this ease may be totally misplaced. The good harvests, despite the levelling off of fertiliser consumption, is due to the monsoon's contribution than to saturation in fertiliser use. And the fact that, with the one million tonnes of indigenous N, only half of the previous year's imports were needed in 1969-70, may warrant no self congratulation. It may be that bottlenecks in the distribution network came in the way of better fertiliser application. It may even be that, since much of the fertiliser consumption is linked to the high-yielding varieties seeds, which require specific dosages of irrigation, it was the limits of available irrigation that necessarily curbed fertiliser application. What all this may really indicate, therefore, is the need for a more comprehensive implementation of the HYV programme so that the constraints imposed by one input such as water do not hinder the overall use of another input.

Tribal Victory

THE outcome of the British General Election has proved the pollsters and the political commentators to be utterly wrong. It has shown that in spite of the most careful sampling and computerised analysis, political changes can still take place in a very unpredictable fashion. In this instance, the public opinion polls were the main cause of the confusion. Most editorial writers, including this one, found rationalisations to fit in with the confident predictions of the pollsters.

Most British news media, in their usual tribal fashion, have lost no time in patting their own countrymen on their backs. The British electorate is said to have shown its sophistication by rejecting Wilson's personality cult campaign and opting for Heath's issue-packed programme. The actual truth is not very palatable. There is every reason to believe that the great unmentionable, white racism, was the main reason for the Conservative victory. Powell, and not Heath, is the man who swung the voters. Before the election it was claimed that Powell was discrediting the Tories by vehemently expressing his differences with Heath over immigration and other issues and so showing up the Tories as a divided party. In the event, Powell's overwhelming win at Wolverhampton, George Brown's defeat by a Powellite at Belper and the defeat of a number of radical and strongly anti-Powell Labour candidates by Conservatives with leanings towards Powell on the "send back the wogs" issue indicates the extent of white tribalism in Britain. The swing towards the Conservatives was not noticeably different in constituencies with large immigrant populations. A disinterested academic body in London, the Institute of Race Relations, has shown in its surveys, that prejudice against people of African and Asian origin is fairly uniform. The white Britisher living in a lily-white area is as likely to be prejudiced as his compatriot living in an area with many Afriians. Colour prejudice also cuts across class boundaries. So, race is an issue even in constituencies where there are few, or no, Afriians.

Another populist posture picked by Powell is his stand against British entry to the Common Market. It is very probable that Labour lost because of the negative reason that it did not have Powell to express the hitherto repressed chauvinism of the British

people. It is only a matter of time before Heath will have to give in to populist pressures and take Powell into the Cabinet. In its own complacent style Britain is moving towards Joe McCarthyism without realising it.

Apart from race, many voters in middle-class suburban belts are likely to have chosen the Conservatives due to their promises to reduce taxation, particularly on incomes and cars. The Tory encouraged scare of a wage freeze and another devaluation of the pound before the end of the year, if the Labour Party came back into power, coupled with the high rate of unemployment, had some effect in working-class constituencies. The low turn-out also affected Labour adversely, as many Labour supporters, expecting their party to win comfortably, even without their backing, stayed at home.

The Reluctant Ministers

A Correspondent writes:

THE Cabinet, after the changes announced last Saturday, is not conspicuous for its new look. The only addition — since the change in Raghuramiah's status amounted only to formalisation of a *de facto* situation — is Hanumanthiaya in the ministry of law. Yet changes in portfolios, and in the content of portfolios, particularly in the economic ministries, have been substantial and one wonders whether these changes presage a new outlook for decision-making in Government.

The major changes have been in economic portfolios: finance, industrial development, foreign trade and steel and heavy engineering. Even food and agriculture, while one may be inclined to take it for granted in the euphoria of the green revolution, would become serious business with just a single monsoon failure. Finance ministry, it is a fact, had lapsed into a kind of somnolence, mainly because of the other preoccupations of Indira Gandhi and perhaps a basic lack of interest in the subject on her part. Fakhruddin Ali Ahmed had become something of a bottleneck to industrial development — or what little of it there was in the circumstances. New initiatives were visible in foreign trade and steel, but the latter could not have gone on with a part-time caretaker, even considering Swaran Singh's earlier acquaintance with the subject.

Given this situation, it might have been presumed that almost any change would be for the better. But here we

have to contend with another phenomenon: the case of the reluctant ministers (or, at least, reluctant portfolio-holders). Apparently, Chavan, Dinesh Singh and Fakhruddin Ali Ahmed, all consider their new portfolios as amounting to demotions. But whatever their own rating of their new jobs, the ministers have to recognise that, temporary political manoeuvring apart, it will not be very long before this Government is judged by its economic performance. This might happen well before 1972. And for shoring up its economic performance it would be unwise for Government to depend only on the luck of good monsoons.

In particular, finance and industrial development sorely need new impetus. In finance, policy seems to have fossilised into a Morarji-like stance of letting things take their course. In industrial development, there has been no movement beyond the natural growth caused by lapse of time. The new impetus in steel needs to be maintained. And if all this happens, the foreign exchange cupboard might be denuded all too quickly — given sluggish exports and small aid.

The question is: will they do it? Chavan's innocence of finance is no less than Morarji's or Indira Gandhi's, and he is likely to be as much a prisoner in bureaucrats' hands as his predecessors. Yet Chavan, politically somewhat battered, will have to make the best of the opportunities that come his way to refurbish his radical image. Dinesh Singh has shown a kind of flair in his earlier charges; but in industry he will need to resist the temptation to play to the gallery (especially the press gallery) and settle down to solid, silent work. This can have its own rewards, even politically.

One other change also needs notice: the progressive transfer of key portfolios and functions to the Prime Minister and her Secretariat. Finance has lost investigation and industry has lost company affairs and licensing. This loss of functions by the major ministries — many of them to the Prime Minister — makes the Prime Minister's role even more pivotal politically. The Cabinet is in real danger of becoming a one-woman band. Such a development would seriously weaken political leadership in a multi-party federal state. The independence with which the new economic ministers perform will be, therefore, crucial to the country's political future, besides determining the state of health of the economy.

Obiter Dicta on Defence

THE only claim to distinction that the report of the Administrative Reforms Commission's Study Team on defence matters can make is that it is perhaps the last in the long series of such reports spawned by the ARC. It was submitted on the very day that the Commission was formally wound up, its Chairman having been found a comfortable berth in the Central Cabinet. For the rest, the report follows the stereotyped pattern set by its numerous predecessors. From the extensive summaries that have appeared in the newspapers it would appear that the Study Team has sought to conceal its failure to go into any of the issues covered by its terms of reference in sufficient depth by commenting cursorily on a wide range of subjects, many of them only peripheral to its principal concern. Its sweep extends from the decision to make membership of NCC voluntary to resettlement of demobilised service personnel — though here, again, the Team seems to consider its task done with the comment that "attention has not been given to this problem, which is important both from the human as well as the national point of view".

In examining the need for, and the possibilities of, administrative reorganisation, the Team has focused its attention mainly at the very top. It has recommended the constitution of a National Security Planning Council which would be responsible for scrutinising and co-ordinating national security plans and their implementation. The Council will have the Prime Minister as its chairman and a professional expert in strategic planning as vice-chairman (the parallel with the Planning Commission is uncomfortably obvious!). However, the rest of the Council will be even more amorphous than the Planning Commission since it will consist of so-called experts in defence matters, external affairs, economics, industry and other fields. Curiously enough the Defence Minister is not to be a member of the Council, but only an invitee. The Prime Minister is to be chairman of another "high level" defence body, the National Defence Council, which was created in 1962 but died a little-lamented death soon thereafter. The Team would now revive the Council. This faith that administration can be streamlined and its performance improved through sheer proliferation of committees and councils is a common feature of a large number of the reports produced under the aegis

of the ARC.

To the genuine problems of defence organisation and administration, the Team's remedies are remarkably facile. Its report concedes that there is "friction and lack of understanding" between the Defence Ministry and the Service Headquarters. Without examining the causes of this friction, the rather obvious remedy suggested is appointment of more service personnel "at appropriate levels" in the Defence Ministry and of officials of the Ministry in the Service Headquarters. That there might be more to integration and co-ordination of the functioning of the Defence Ministry and the Service Headquarters than just exchange of personnel seems not to have occurred to the Team.

The Team's treatment of complicated issues is remarkably casual. For instance, it complains that a popular impression has been created, "without any serious study", that high outlays on defence could be made only at the cost of economic development — apparently implying that in fact there is no conflict between defence and development. The Team should have known that the impact of the sharply increased defence spending on the economy is no longer a matter of "popular impression" but of actual experience in the last few years. Every single official explanation of our economic difficulties since 1962 has found it necessary to refer to the armed conflicts with China and Pakistan and the consequent need to maintain defence expenditure at very high levels. In fact this factor is given as much weightage as the agricultural disasters of the latter half of the 'sixties. At any rate, the Team's own views on the subject are hardly based on any "serious study".

One valid point, which the Team makes, relates to the almost total lack of public information about defence matters — the result of the official habit of treating everything, however trivial, as secret. This was why the lacuna in our defence establishment, which the hostilities with China brought to light in 1962, gave such a shock not only to the general public but even to Members of Parliament. On the whole, our parliamentarians, even those belonging to the opposition benches, have shown themselves too ready to accept on faith, official statements on defence matters. The number of MPs who can claim to be able to critically evaluate developments in defence policy can be counted on the fingers of a single hand and even they are prevented from performing their task effectively by the general climate of indifference in Parliament. It remains to be added that while the Study Team's complaint of lack of information about defence matters is very valid, the Team itself appears to have completely wasted the opportunity that it had of probing the defence set-up.

Fruits of Flamboyance

THE recent visit of President Suharto to the USA underscores Indonesia's inclinations towards America and the West in general. There has been a sea-change in Indonesia during the last five years both in external and internal policies. The concept of NASAKOM or an alliance of nationalist, Islamic and communist political forces under the direction of Sukarno's charismatic leadership has been replaced by army rule which has sought to include popu-

Special Number 1970

The Special Number 1970 of *Economic and Political Weekly* will be published at the end of this month. It will be a 180-page issue and will be priced Rs 10. Postage and registration charges will be Rs 1.50.

The Special Number will be supplied free to subscribers. Agents are requested to place their orders in advance.

In view of the Special Number, there will be no weekly issues on July 18 and 25 and August 1.

Circulation Manager

list politicians of conservative hue in the running of the country.

The army is still extremely wary of even the slightest indication of communist or supposedly communist resurrection in any part of the vast chain of Indonesian islands. Not satisfied with one of the most brutal pogroms in recent history, in which anything between 2,00,000 and 5,00,000 persons, including many political innocents, were wiped out in a vendetta against communists carried out by the fanatical followers of the Muslim Masjumi Party with the active encouragement and, at times, participation of the army, Suharto's regime continues to use the communist bogey as a convenient means for repressing most forms of political activity in Indonesia. Even mildly progressive nationalist groups like KAMI, a student movement, which was vociferously anti-Sukarno, now finds itself prevented from expressing open dissent against the corruption and nepotism which it feels has become apparent among ruling circles.

This does not mean that Suharto believes in absolute military rule. Efforts are being made to hold a general election by July 1971, to elect members to Parliament and to regional councils. Suharto and the army, however, insist that a large number of members of these bodies should be appointed by the executive to prevent politicians from completely dominating the legislative

arm of government. The executive and administrative side of government will continue to be the preserve of the army. Defence personnel continue to serve in posts ranging from village headman to regional administrator (governor). About 90 per cent of the governors are military men.

On Armed Forces Day last year, Suharto defined the role of the defence services as "the dynamiser and stabiliser of the country". This has proved to be a contradictory proposition, the result being increasing political discontent in Indonesia, which has been diverted from wrath against the government to violence against minority groups such as the Chinese and the Catholics. The army and Muslim mediaevalists, both within and outside the Masjumi Party, reinforce each other to strengthen their hold on the country. Suharto, like most military men, seems to be succumbing to the idea that firm rule, political diversionism, and economic stability, can obviate the need for genuine political participation.

The happenings in Indonesia are a text-book example of what could possibly happen to Leftist forces elsewhere in Asia if they indulge in flamboyant exercises without adequate organisation or practical unity. They will find that an alliance, between military men and populist mediaeval forces, such as the Masjumi or the Jan Sangh, is always a formidable combination.

bank credit was necessary to sustain even constant levels of inventories.

The States have announced loans of Rs 142.50 crores. A novel feature is that all loans are at par, though the rate of interest (for the 12-year period) is on the high side. LIC, with its new-found interest in Electricity Board bonds and in $\frac{1}{4}$ to $\frac{1}{2}$ per cent additional interest, is unlikely to be an enthusiastic supporter of this exercise. With banks hitting the minimum permissible liquidity ratio and even borrowing at penal rates, their ability to subscribe to the State loans is limited (even on a fixed quota basis). We might, therefore, have the odd situation of the Reserve Bank lending to commercial banks to enable them to buy State loans — instead of absorbing the loans directly. Unless the situation changes, the second tranche of Central borrowing, now expected at September-end, is also likely to be jeopardised. The need to establish orderly conditions on the money market is thus evident.

There are two elements in the situation that need watching: the marginal increase in bank credit and the marginal accretion to deposits. The ratio of the former to the latter was as high as 1.3 : 1 during the period from the beginning of May to the middle of June this year against 0.5 : 1 in the corresponding period of 1969. Credit expansion financed by borrowing from the Reserve Bank has taken place despite penal rates of refinancing, indicating the strong pressure of demand for funds and lack of concern among banks for profitability.

Government needs to work out a coherent banking policy, rather than expand all its limited energy on shuffling bank custodians. And if it does not have ideas, it is time Reserve Bank showed the way.

Correction

In printing the first page of the Review of Agriculture last week, the printer by mistake used the 'Review of Management' block instead of the 'Review of Agriculture' one. By the time the error was detected, some copies of the issue had already been bound. It was not, therefore, possible to correct the mistake in these copies. We apologise to those of our readers who received these copies.

—Ed

Not Poor Man's Transport

ASSUMING a tough posture at last, Government has decided to allow only Rs 9.50 per bicycle as price rise as against the Rs 16 rise sought by the bicycle industry. New Delhi has always tried to pare the industry's attempt to raise prices before, so the latest refusal to concede the full extent of price rise cannot have come as a surprise. What seems to perturb the bicycle industry, however, is Government's definitely tough posture this time. Till now, the bicycle industry had got away with ignoring Government's advice on the price issue.

After price control was lifted in July 1963, two price rises were allowed to the industry: the first in 1965, of Rs 8 per bicycle, following the imposition of excise duties on the bicycle, and the second, of Rs 10, after the devaluation of the rupee. In addition, the industry increased the price twice on its own in recent years — first, in October 1968, and again in April 1969. This went against the understanding with Government that any price rise would have to be with its prior consent. Irked by the "unjustified" increases, New Delhi threatened to reimpose price control, but the industry knew better. It was convinced Government was in no mood for controls and that it was safe. So new firmness in the official stand has come as a surprise.

Yet Government could have afforded to be tough even earlier. Production of bicycles has increased every year — from 10.65 lakhs in 1960 to 16.79 lakhs in 1965 and to 21.75 lakhs in 1968. Capacity utilisation is also very high, at 90 per cent. Why then the failure to maintain costs? The industry's argument that the price rise is necessitated by the increase in cost of steel components needs to be balanced against the gains it may have made through increased production and higher capacity utilisation. Granted that the increase in the price of raw materials and components has been sharp at times, there is no evidence that the industry has at all sought to control costs on other counts. It has, on the contrary, tried to make up on margins what it may have tended to lose in demand. Already, dealers in bicycles have started to feel the pinch of the high price through the fall in demand for bicycles, generally considered the poor man's conveyance.

The present market price for standard quality bicycles ranges high and wide, between Rs 235 and Rs 300 per bicycle. The suspicion that not enough effort has

been put into rationalising operations or effecting economies is, in fact, further strengthened by this high disparity between bicycle prices of different brands. For instance, Hind is sold at Rs 235, Raleigh at Rs 300 and Hercules at Rs 275. Why, when raw material costs for all makes are almost the same, is there room for such disparity? If Hind cycle can be priced at Rs 235 why should the manufacturer of Raleigh charge Rs 65 more?

It is time, in the light of the fact that raw material costs are in fact going up and that there are, at the same time, indications of inadequate cost consciousness and attempts at rationalisation within the industry, for Government to look more closely into the cost structure of the industry. A fresh inquiry into the cost-price structure of bicycles by the Tariff Commission may be very much in order. The last report on the industry by the Tariff Commission is now seven years old. Meanwhile a moratorium on bicycle price could be imposed.

One More Authority ?

A MARKET Development Agency for exports has been in the air ever since ex-Foreign Trade Minister, B R Bhagat, and Foreign Trade Secretary, K B Lall, returned from their tour of the US early this year. It has now taken more definite shape. A Ministerial group has prepared a detailed model plan, to be implemented in three phases. The new agency is to be called "Trade Development Authority". The first phase of setting it up, lasting three months, will cover July-September this year. Phase two will be from October 1970 to March 1971. And phase three will last one year, from April 1971 to March 1972. After the trial run till March 1972, TDA, it is expected, will have been established on a sound footing and might be expanded into an apex institution to serve the Indian exporting community.

The central idea behind the TDA is provision of "package assistance" to individual exporters, where today there is a multiplicity of agencies through whom he has to seek support. From the time an exporter approaches the TDA, the Authority will be concerned with making the job of exporting easier for him — by collecting and collating information on behalf of the exporter, helping in product development, finding export finance, and helping him implement the order. Through its five divisions — Information, Research and Analysis, Merchandising (which will be

the core division), Export Production, and Special Projects and Products Research and Development division — TDA is to undertake activities not undertaken at present by the existing institutions. It is to operate outside the areas of public sector agencies like STC, MMTC, etc, the object being to induce and organise principally medium and small-scale entrepreneurs to develop their individual export capabilities. In the initial stages, TDA's activities are to be confined to a limited range of products and functions, where there is need to improve the quality of the existing service. With experience obtained in the first two years, TDA's coverage will be extended. For instance, during phase one, TDA will concentrate on sports goods, processed foods, and some special products in the plastics and engineering groups. Also, its promotional service will be limited to say about 100 entrepreneurs.

In its early stages, an experiment such as TDA obviously cannot charge a fee. The initial outlay is, therefore, to be met exclusively from Government funds. Later, funds may be endowed to TDA both by Government and private subscribers (depending on TDA's usefulness), so that it could become a truly autonomous body, charging a fee for the service it provides. External assistance is also not ruled out — to be used for training of its staff abroad and engaging consultants. While thus aiming at financial autonomy (the Authority is to be registered like the Indian Institute of Foreign Trade), it is far from clear how that autonomy will be achieved in fact. During the initial stages, a Steering Committee is to manage the affairs of TDA. The committee is to convert itself into a Board of Trustees at a later stage. The chairman of the committee would be the Secretary to the Foreign Trade Ministry, and the executive director would be a Joint Secretary in the Ministry. Will this set-up be conducive to making TDA an "autonomous organisation"?

The organisation has been planned on an officer-oriented basis. Apart from an office in Delhi, TDA will have one officer each in New York and Frankfurt, and these officers are expected to be not only the "eyes and ears" of TDA, but also "to serve" the exporting community — particularly the small exporter. As a "service" organisation this experiment in providing "package assistance" to the small exporter may prove to be just another organisation, working on the periphery of the export field —

BUSINESS

Still Busy

THE busy season officially closes at April-end, but this year demand for bank funds has remained high, creating problems of monetary management. The increase in bank credit during the period from end-April to mid-June has been Rs 158 crores against Rs 58 crores in the corresponding period of the last year. Moreover, over the same period, deposit accretion has been smaller — Rs 114 crores against Rs 123 crores last year. As a result, banks have been heavily dependent on Reserve Bank funds to finance their credit expansion. The expansion of credit over the entire period from October 1969 to June 1970 has been Rs 747 crores, against Rs 550 crores during October 1968 to June 1969. The money market has, not surprisingly, remained tight.

Some scapegoats have been found to explain the runaway expansion of bank credit: sugar has apparently taken Rs 150 crores more and foodgrains have accounted for another Rs 100 crores. Some satisfaction is also sought in the speculation that the industrial revival might be eating up funds, though there is not much evidence of this anywhere on the industrial horizon.

What is more difficult to explain away is the price situation. Despite a much lower than anticipated budgetary deficit in 1969-70, the Budget for the current year had contained within it an inflationary element. Increasingly, price-trends have shown a hardening tendency. The rise in prices had been sharp till May and was checked only in June. Given the rise in prices, more

with the major technological problems of the central, traditional exports such as jute goods, tea, cotton textiles, remaining untouched. Some months ago, a committee to review the working of the State Trading Corporation had, in its final report to the Foreign Trade Ministry, envisaged the eventual creation of an apex public sector holding company, with several individual units under it, looking after and responsible for the exports (and imports) of various commodities. The committee was headed by P L Tandon, chairman of STC. The fate of the committee's recommendation is not known yet. Is the chimeral Trade Development Authority a sign then that the idea of a responsible executive body, such as that suggested by the committee, has been politely shelved?

Taking the Soft Option

THE Maharashtra State Financial Corporation's annual report for 1969-70 plays down the unsolved problems facing the Corporation as also problems it is likely to face in the very near future. The Corporation's vigorous campaign to extend its activities in areas outside Greater Bombay and Poona division is commendable. The pity is that it should have come only in the eighth year of its working. Besides, it is unrealistic to expect that with MSFC's money the newly discovered class of fledgling entrepreneurs (prosperous cultivators, mostly) will industrialise the hitherto backward parts of Maharashtra.

For establishing industrial activity in these areas, finance is not the critical requirement — at any rate not with the class of entrepreneurs referred to above. It is the supply of adequate technical service that is of critical importance. Locating and encouraging technically qualified entrepreneurs, selecting schemes to suit the particular areas, assisting (along with the other organisations in the field) in the preparation of feasibility studies and helping the chosen entrepreneurs to get the projects started — these are the tasks which have to be undertaken for starting up industrial activity in these areas. In a way it reflects the MSFC's sense of priorities that till very recently it had not cared to develop a technical wing of its own and instead relied on the Industries Department of the State Government. Even the recently set-up technical wing is conceived on too modest a scale to make even an effective beginning.

Similarly, with the new scheme for

financing truck operators the MSFC appears to be taking the easy way to push up figures of assistance sanctioned and disbursed by it. Thus of the increase in business of about Rs 4 crores during 1969-70, as much as about Rs 2.5 crores are accounted for by this activity alone. In terms of its broader economic objectives, it is difficult to justify MSFC's emphasis on this activity.

Another major problem SFCs are at present worried about is the role of nationalised banks. Unless some co-ordinated programme is drawn up, SFCs will end up competing with banks. MSFC's programme to set up an office in every district of Maharashtra hints at such incipient competition. Apart from doubts about the effective-

ness of this effort, it will also involve avoidable duplication of administrative overheads by different institutions. MSFC should, on the other hand, investigate the possibility of sponsoring a project and an entrepreneur jointly with the bank in the concerned locality. MSFC should take the initiative in locating and finalising the project in its technical aspects while the bank, being on the spot, can check on the entrepreneur, tackle other local problems and also undertake follow-up work more efficiently. For this reason, disbursement of MSFC's assistance towards capital cost can be better handled by the bank concerned which will be providing working capital for the project.

LETTERS TO EDITOR

New Helmsman for Licensing

THE Prime Minister, it is reported, has taken over industrial licensing under her own charge, with a ministerial committee to take decisions on licensing applications. This step has been taken partly perhaps because of the indecisiveness of the Ministry of Industrial Development under Fakhruddin Ali Ahmed. But part of the reason is perhaps unwillingness to trust the new incumbent in the Ministry, Dinesh Singh.

The change in procedure may not appear very material since even in the past decisions on major industrial licences have been political (witness the dithering on the Tata fertiliser project) and have been taken after top-level consultation. Yet licensing has broader technical implications, and even given the rate of non-implementation, licensing is a sieve which sets a limit on investment. Its economic direction is, therefore, as relevant as its political control.

One hopes that the new procedure will relieve the jamming up of licence applications under Fakhruddin Ali Ahmed. If the economy is to gather even a little pace, this is the first step. The next step should be to prevent pre-emption by public sector of licences (as seems to be proposed in paper, cement, scooters and polyester) under the guise of improving the profitability of the sector.

There are broader aspects of licensing

to be examined also. Under the present system of planning, the only areas of investment unallocated State-wise are the Central Plan outlay and private investment in industry. This leads to a scramble among States for private sector projects. So far some of the States have done well in the free-for-all. For example, Tamil Nadu has attracted a large number of licences and diversified its economy under the system.

Yet Tamil Nadu has now raised the banner of revolt against the present system. It would like licensing to be decentralised or State-controlled. This hardly makes sense, even for Tamil Nadu, since all States can play at this game. The result would be over-capacity and uneconomic-sized units, with inevitable demands for State protection and patronage.

The answer to this problem should be to define more clearly industrial priorities and the levels of industrial investment for different States. Such a system would ensure overall economic co-ordination and economic use of the States' resources. Unfortunately, the planning system seems to have ossified and made little progress in refinement of techniques since 1951. The political price of such stagnation can be heavy.

A READER

Bombay
June 30

Chemical Warfare in Vietnam

NAVROZ Mody has done well to expose the cruelties of the chemical and biological warfare from US official and authoritative sources. The sufferings of the civilian population are indeed horrible and beyond imagination and the long range effects on land and vegetation harmful in the extreme.

Perhaps you remember Heden, while delivering his address after the inauguration of the 3rd International Conference on Global Impacts of Microbiology, (Bombay, 7 - 12 Dec 1969) had drawn pointed attention to: (a) Pine Bluff Arsenal (Arkansas, USA) employing 1,700 men and women in the production of chemical, biological, smoke and incendiary agents or munitions. In 1966, the area was 15,000 acres, with

945 buildings valued at (with equipment inside) \$130 million. Annual production was estimated at \$20 million. The value of biological warfare facilities alone was stated to be over \$100 million.

(b) In one of the major US Research and Development Centres, at Fort Detrick, 2,500 civilians and 500 military personnel were employed; they included 320 BScs, 110 MScs and 120 PhDs and 34 veterinarians.

It is necessary to keep a close watch over similar activities elsewhere. These are centres where man conducts experiments and forces and produces agents to destroy man and vegetation and all life in fact.

S R TIKEKAR

Bombay
June 25

CAPITAL VIEW

The Boss

Romesh Thapar

ALL the subtleties, nuances and crudities notwithstanding, it is clear that the central purpose of the recent Cabinet reshuffle was to establish in unmistakable terms the hegemony of the Prime Minister over the ruling Congress Party. The performance orientation of ministries, the abilities of ministers, the need to take square pegs out of round holes, to sack the inefficient and the corrupt — all this was just not part of the exercise.

Indira Gandhi has now emerged with more power in her hands than her father ever enjoyed. She has achieved this position of undisputed leadership in her party in the course of five eventful years, and almost single-handed — an extraordinary achievement in a complex subcontinent already in the throes of deep transitions and transformations. What's more, her personal triumph in the power struggle will drive the last nails into the coffin of the fumbling, mumbling, disparate group headed by Nijalingappa. Those wishing to escape the fate of total obsolescence will begin the return to the fold of the ruling Congress Party which should now see the crystallisation of a new unity and coherence.

The operation was messy and unedifying for those with a ring-side seat. Its very cynicism emphasised the objective of establishing power and authority during a crucial period of political flux. Many colleagues will be disgruntled.

Those who expected more than was served up must be out of their mind. A minority government cannot afford to lose bodies. Each body is a vote, a crucial vote!

Indira Gandhi may be supreme in the ruling party, but she knows that so long as she lacks a majority in Parliament she is at the mercy of forces which she cannot directly manipulate. It is for this reason that political thinking is again veering round to the idea that a mid-term poll might provide the kind of medicine which the Indian politics of today require. What use power if it is inhibited!

FAVOURABLE MONSOON

Speculation is intense about the mid-term poll. The by-election trend in favour of the ruling Congress Party has been widely noted. The forecast of another favourable monsoon — for the third consecutive year — is a major factor because the fourth is bound to be uncertain if we go by past averages. The conviction that problems will continue to grow and that a minority government will not be able to act decisively is also spreading. Indeed, the supporters of a mid-term poll may soon find themselves a majority opinion.

Developments in Kerala, where a mid-term poll has been ordered by the CPI, and the possibility of a similar development in Bengal, suggests that we may not have to play political hide-

and-seek between now and 1972. Events are conspiring to force our unwilling politicians to face the electorate. This is as it should be — and the cost is not all that prohibitive in terms of political health.

Whatever the final decision on the poll, Indira Gandhi has got to get her motley group to perform. No longer can she argue that this or that person prevents performance. And this fact puts the onus of performance on her. I wonder if this aspect of the recent developments has penetrated the consciousness of the PM's inadequate and ill-staffed Secretariat. Maybe, a major overhaul is called for at this crucial point in the apparatus of government — crucial, because all decision making is squarely with the Prime Minister.

Until now, the structuring of the PM's Secretariat has been most confused. A single Secretary who acts as a kind of decision making funnel to the PM is an anachronistic administrative device and reminiscent of colonial days. The PM needs a number of specialists of full Secretary rank directly communicating with her and with persons of similar seniority in ministries which concern them. This is absolutely essential if we are to move from manipulative politics to performance politics.

The mounting criticism against the PM's Secretariat is due largely to the failure to establish proper lines of communication and to define the areas where ministries will have to be co-ordinated. The present procedure is shot through with all manner of 'instant' thinking which creates an unhappy feeling of interference. A ministerial team has to be disciplined but it must not be made to crawl and cringe. A lot of this is unfortunately visible to those who are looking around. When the PM begins the reshuffle of the senior bureaucracy, now forecast as the 'next step', she will have to take a wider view of the paralysis or semi-paralysis.

Events pile up upon each other. Soon, preparations will be under way for the next session of Parliament. The communal groups, now under heavy attack, cannot sit and watch. The communist factions are disturbed by the new strength in the ruling party. The socialists of various hues do not know where to stand. The naxalites are studying these constitutional capers and building all India links. Maybe, the belated political breakthrough is developing, even though its exact direction is unclear at the moment. This is all to the good...

June 29

NEW DELHI

The Crux of Recognition

WHILE excitement over the expansion of the Union Cabinet and the reshuffle of portfolios ran high throughout last week and has yet not entirely died down, the implications of the reshuffle for economic policy and its implementation are far from clear. It might even be ventured that the reshuffle has little relevance to the economic field. It has been suggested that, by divesting herself of the Finance portfolio, the Prime Minister has indicated that economic radicalism is no longer of pressing interest to her. The campaign against communalism now claims much greater attention, and her likely intention to take the country to a mid-term poll early next year underscores the importance of having the Home portfolio under her charge. At the same time, the reshuffle in the other economic ministries has carefully retained — even strengthened — the Prime Minister's initiative and control over them. Industrial licensing is to be directly under her charge, and not part of the responsibility of the Industrial Development Ministry. Company Affairs too has been separated from the Industrial Development Ministry, and will be under the independent charge of a Minister of State. The Prime Minister also retains the portfolio of Planning, besides the Chairmanship of the Planning Commission. There are indications, too, that the Finance Ministry might be shown of some of its present work which might be taken on by the Cabinet Secretariat. It appears that the Prime Minister intends the Cabinet Secretariat to be considerably strengthened to make it function, more actively, as the co-ordinating centre.

LABOUR MINISTRY INERTIA

After a few initial gestures towards new policies on and new approaches to labour relations, the Union Labour Ministry has been sitting pretty. The entire exercise of a National Commission on Labour, and its voluminous report, are thus beginning to seem futile.

The key recommendation of the National Commission on Labour was that a high-powered Industrial Relations Commission be set up, both at the Centre and in the States, headed by persons of the status of High Court judges. These Commissions were to be invested with the entire responsibility

for taking cognisance of industrial disputes, adjudication, and regulation of industrial relations. The Executive was to be divested of all powers or responsibilities in these matters, so that industrial relations could be freed of political influence and interference.

This would have been an improvement on existing arrangements, if regulation and adjudication were to be retained on the removal of all outside influences, leaving the field clear for collective bargaining and talks by organised labour and employers. But the Labour Ministry has rejected the suggestion for the not altogether convincing reason that, the new set-up may attract the same criticism of partiality and heavy costs that the present conciliation and adjudication arrangements do. If exercise of discretion by the executive attracts criticism on grounds of bad judgment and partiality, the Industrial Relations Commissions too, the Ministry maintains, might be subjected to similar criticism. Under the existing arrangements there had been widespread suspicion and criticism of Government officials for their whimsical and partial exercise of discretion in referring disputes for adjudication and in implementing awards. The position could be rectified if regulation and adjudication could be retained by placing the responsibility for the exercise of discretion in the hands of judicial bodies. Understandably, the Labour Ministry is unwilling to give up any part of its powers, since the present conciliation and adjudication arrangements offer it great scope to exercise influence on the labour movement.

The Labour Ministry's own proposals to strengthen the existing conciliation and adjudication machinery are that the right to conciliation or adjudication should be available only to recognised unions, and that an award by an Industrial Tribunal in a dispute raised by a recognised union should be binding on the management and on all the workers of the concerned establishment or industry.

This is an important suggestion, but its viability rests totally on the crucial question of recognition of the representative union. On this, the Ministry is completely silent. In the absence of a firm assurance that the majority union

would be recognised by the management — where, in the prevailing conditions, managements both in the private and public sectors exercise what amounts to wild and irresponsible discretion, recognising and favouring the minority unions if they be more pliable to management's wishes — there can be no effective improvement in labour relations.

Besides rejecting the central recommendation of the National Commission on Labour, the Labour Ministry has also shelved the much publicised idea of workers' participation in public sector management. The concept of workers' participation in management has till now been so narrow that it does not evoke much enthusiasm. It is generally restricted to the appointment on the Board of a director from among labour representatives. Whenever such directors have been appointed they have failed to make any impression of the labour viewpoint. Choice for the post is almost invariably of men who enjoy official patronage more than the confidence of labour; in fact, as directors, these men at once become identified with management. The central issue, if any advance is to be made towards workers' participation in management, is once again recognition of the representative union. But the Labour Ministry uses the multiplicity of unions and the inter-union rivalry as excuses for shelving the idea of workers' participation in management.

INDO-CEYLON OIL

The political changes in Ceylon have been regarded as conducive to enlarging the area for economic co-operation with that country. A proposal has been pending for a long time for a joint Indo-Ceylon project for oil exploration in the off-shore area of the Palk straits. International bodies have indicated interest in it, and the Ceylon Government has been using the services of a French company for preliminary surveys. But the Oil and Natural Gas Commission and the Petroleum Ministry were very lukewarm about the project. This attitude has now changed and the question is being reconsidered. The new mood has been further fortified by reports that the Sirimavo government intends to have a fresh look at the Fertiliser Corporation's tender for building a big fertiliser complex in Ceylon. There are three other tenders in the field and the Indian tender has been facing stiff competition.

KERALA

CPI in New Clothes

DURING his relatively brief spell as Chief Minister, Achutha Menon never showed any particular eagerness to face the Assembly. The so-called mini-front Government led by him was sworn in on November 1, 1969, but he did not convene the first session of the Assembly for almost 10 weeks. In the meantime, many people had been killed and many hundreds injured as police suppressed the agitation launched by CP(M) demanding an early Assembly session.

It is true that in the one and only session of the Assembly that he faced, Achutha Menon won a vote of confidence. But over the duration of the session, his Government's majority dwindled from 18 (in the vote on amendments to the motion of thanks to the Governor) to 9 (in the vote on the Appropriation Bill). Congress (O) started by supporting the Ministry but gradually moved to a neutral position and abstained in the voting on the confidence motion and the Appropriation Bill.

ISP SPLIT

With such a narrow majority, it was clear that the Ministry would find it difficult to survive another Assembly session. There was, besides, the acrimonious split in the Indian Socialist Party, one of the constituents of the mini-front as well as the Government. Following the split, the larger faction of the party had threatened to withdraw support to the Government unless the Finance Minister, who belonged to the other faction, was dropped. To save his Government, Achutha Menon had to persuade the Minister to resign, though that did not settle the problem.

The ISP's dissident faction, including the former Finance Minister, merged itself with the PSP and the PSP unit thus formed began to press the mini-front to admit it, if not into the Government, at least into the co-ordination committee of the front. The demand was opposed by the ISP which told the Chief Minister point-blank that it would leave the Government and withdraw support to it if the front had anything to do with the PSP. Given his slender majority, Achutha Menon could not do without the support of either

the ISP with 8 MLAs or the PSP even though it had only 3 MLAs.

In the meantime, Congress (O) had moved from a neutral position to one of active opposition to the Government. At its two-day session in Cochin last month, the party appealed to all political forces in the State to join hands to oust the Ministry. The odds were thus heavily against the Achutha Menon Ministry surviving the next session of the Assembly. With Congress (O) voting with the opposition, the Government's majority would have been cut from 9 to 4. (The parties actually represented in the Government had only 46 members in the 133-member Assembly.)

FALSE CLAIM

This is the background to the dissolution of the Assembly on June 26 on the advice of the Chief Minister. Achutha Menon's claim that he advised the Governor to dissolve the House and order fresh elections because he wanted a larger majority so as to carry through more confidently his Government's progressive policies can be, in the circumstances, dismissed out of hand. His purpose clearly was to save himself from loss of his narrow majority — an eventuality which might have materialised even before the next session of the Assembly. Further, by his clever manoeuvre he has opened up the possibility that the next election might be held with his Government still in effective power.

The success of the manoeuvre was made possible entirely by the remarkably uncritical attitude of the Governor. The Governor chose not to raise any questions about whether the Government still commanded a majority in Assembly before accepting its advice to dissolve the House. This rather unusual behaviour on the part of the Governor fits in with the highly sympathetic attitude which the Central Government had taken towards the Achutha Menon Government ever since its formation.

Achutha Menon has naturally claimed that the coalition he leads will be returned to power with a comfortable majority on the strength of its record of progressive measures. Principal

among these is the land reform law which, while enacted under the EMS Government, the present Government has been claiming to implement. The implementation, it is worth noting, has been extremely selective. The Government has so far concentrated on giving ownership rights to landless homestead dwellers (*kudikidappukars*) who are allowed to purchase the land on which their homes are built upto a limit of 10 cents (1/10th of an acre) in villages, 5 cents (1/20th of an acre) in municipal areas and 3 cents (1/33rd of an acre) at district headquarters. The Government has claimed that it has assigned homestead rights in about 20,000 cases. Even at the rate of the maximum of 10 cents per family, this means award of no more than 2,000 acres to these people. In fact there has occurred no physical transfer of land since only those who have been in possession of homesteads for at least two years qualify for award of the legal title.

CEILINGS LEFT ALONE

The outstanding feature of land reform law is not this, however; it is the ceiling of holdings prescribed under it. The ceiling fixed is the lowest for any State: 5 standard acres for an unmarried adult, 10 standard acres for a family of 5 members and 1 standard acre extra for every additional member in excess of 5. The Government had made no move so far to implement the ceiling part of the land reform. This is entirely understandable, for had it tried to enforce the ceiling it would have had up in arms against it some of the most powerful supporters of the Muslim League and the Kerala Congress, the two mainstays of the coalition. For the same reason, Achutha Menon's claim that he will enforce the land reform if he is returned to power in the election can be discounted, since in any Government that he forms these two parties would be, if anything, even more important than they are today.

While Achutha Menon may talk of a progressive programme for the benefit of the members of his own party and to steal the thunder from the CP(M), he knows very well that the real image that his coalition projects is that of a Government committed to law and order and stability and one which is the only alternative to the threat of radicalism (or extremism, if you like) represented by the CP(M). That this is the coalition's real image is clear from the fulsome praise that it has attracted from quarters which would be among

the first to attack it if there were the slightest hint of progressive policies. Irrespective of who comprise it, therefore, the appeal of the united front of political parties which Achutha Menon will nominally lead in the coming election will be primarily to those who voted against the Leftist United Front in the 1967 election.

CPI HAS NO CHOICE

The CPI's role at the head of such a coalition deserves to be noted, it is easy to see why parties like Muslim League and Kerala Congress are happy to have it in this role. For one thing, it effectively splits the communist vote and confuses a considerable section of committed communist voters. Second, it gives a progressive look to the coalition in a State with a large Leftist vote. Finally, if the main

enemy to be crushed is CP(M), then it is an advantage to be able to function from under the umbrella of a CPI Chief Minister — as Home Minister Mohammad Koya of the Muslim League found to his satisfaction during the term of the Achutha Menon Ministry.

As for the CPI, it has no choice but to accept this role since it has found, in both Kerala and West Bengal, that as part of a united front with CP(M) it is bound to lose ground to CP(M). At the same time, it cannot hope to organise a viable front against CP(M) in Kerala without the Muslim League and the Kerala Congress. The logic of Kerala politics has convinced CPI leaders that acceptance of the junior partner's role in a coalition actually dominated by anti-Left forces is the price it has to pay for survival.

TAMIL NADU

Big Brother

MADRAS city recently witnessed a poster-war, of a friendly variety, waged by the city's different DMK units. Each unit was vying with the other to show that it was second to none in its attachment and devotion to its party and Government leader. The occasion was the 47th birthday of the Chief Minister, Kalaingar Karunanidhi. Birthday celebrations of DMK Ministers are relatively rare, since the Tamil Nadu ministry is still a compact one; but the occasions are systematically exploited by the DMK leadership to foster the unity of the party by getting the rank and file at various levels to reaffirm their loyalties.

Interestingly enough, it was reported that many temples had sent *prasadam* to the Chief Minister on his birthday. These offerings were accepted — a concession to the Gods by the atheist DMK. Karunanidhi's thanksgiving message to the 'devotees' exuded confidence and was a reaffirmation of his supremacy as leader of the party and the Government: "As Chief Minister of the Government and as chairman of the ruling DMK, I seek the full support of the people of Tamil Nadu in serving the people on the lines indicated by the late Shri Annadurai, the leader who shaped me." With his position in the State apparently well secured, the Chief Minister is planning a 20-day business-cum-medical-check-up tour of a number of countries.

Labour problems have taken up a lot of the Chief Minister's attention recently. There was the lightning strike by some 3,000 clerical employees of the Neyveli thermal power station which spread later to the entire labour force of 16,500 and paralysed the power station. It was four days before the workers resumed duty after an appeal by the Chief Minister. After the strike had been called off, the Chief Minister publicly thanked CPI and DMK labour leaders for settling the issues amicably and for extending their co-operation to the Government. He was soon to get the co-operation of the same CPI and DMK leaders once again in the dockworkers' strike which, however, lasted 16 days. The DMK leaders involved in the dispute were insistent that the Chief Minister should arbitrate, but the Union Labour Minister did not oblige them and the settlement was reached on the basis of the Labour Ministry agreeing to refer the dispute to arbitration by a retired High Court judge. It has been suggested that both these strikes were instigated by the DMK which wanted its newly-formed labour wing, the Thozhilalar Munnetra Sangham, to have its first lessons in trade union politics.

More opportunities came the Chief Minister's way to cover himself with glory. A section of the locomotive operating staff of Southern Railways struck

work. The Chief Minister intervened — this time at the Union Railway Minister's request — and brought the strike to an end after six days. Similarly, the nine-day strike at the Indian Overseas Bank was called off after an appeal by the Chief Minister.

STERN TASKMASTER

Karunanidhi, however, exchanged the mantle of a benevolent peacemaker to that of a stern taskmaster when engineers of the Tamil Nadu Electricity Board, led by Marxists, went on a lightning strike to express their disappointment over the pay revision announced by the Chief Minister himself. The revision did not benefit a substantial section of engineers and casual workmen. The Chief Minister commended the recognised unions, controlled by CPI and DMK, for not taking part in the agitation and cracked down on the unrecognised Marxist-led union which had 'instigated' the strike. The striking engineers were given a time-limit within which to sign a statement pledging loyalty to the Board and tendering their unconditional apology for having gone on strike. The time-limit was every graciously extended by a day and the strike petered out.

The informal alliance between the CPI and the DMK forged at the trade unions level, is, however, cracking at the broader political level. The land-grab agitation which the CPI proposes to launch on August 15 has drawn the ire of the Chief Minister who might decide to meet it with the ruthlessness at present directed at the Marxists. The war of words between the Chief Minister and the Secretary of the Tamil Nadu unit of the CPI has been hotting up and the latter has charged the DMK with using its official position and power to destroy not only its opponents but even friendly parties (such as the CPI would like to be!).

DMK's other ally, Swatantra, is also none-too-happy. Despite public declarations that the defeat of the Swatantra candidate in the Colachel by-election will not harm the Swatantra-DMK understanding, the Swatantra party nurses a deep grievance that the DMK, by its indifference, gave the Colachel seat on a platter to Kamaraj.

These overt and covert protests at the DMK's big-brother attitude, the deteriorating labour situation and the CPI's land-grab agitation will not, one hopes, mar the Chief Minister's holiday abroad.

The Tedium of Politics

Nireekshak

POLITICS! Politics! Politics! Had not the monsoon and Khorana's gene intervened, the tedium would have been too much for newspaper readers to bear. First there was the AICC meeting in Delhi — the ruling party's, that is. Then came the British general election.

At the end of every AICC session, correspondents assigned to report it used invariably to say how many 'words' had been transmitted by the telegraphs from the site of the session. There seems to have been no mention of wordage this time, however, probably because no computer was readily available and human ingenuity was too inadequate to cope with the task. Reporters used words, of course, hundreds of words, for example, to describe the expression that Indira Gandhi wore on her face when she surveyed the delegates' kitchen, and scores more to interpret this expression as a silent protest against the inadequate arrangements. For did she not walk away without a meal? She certainly did, but it might as easily have been indigestion or a luncheon appointment with a visiting fireman or ambassador, who knows? No one apparently checked.

And *Five Press Journal* went to great lengths to describe how the Prime Minister handed a sheaf of papers to Vasantrao Naik, to nail the precise moment at which she had conveyed to Maharashtra's Chief Minister her alleged new proposals on the Maharashtra-Mysore boundary dispute. And so on and so forth. Much of the reporting had to be reporting of the speeches made at the session, quite naturally, but the species designated special correspondents are also expected to go behind the speeches and convey to readers some idea of the currents and cross-currents coursing in the deeps. There was practically nothing of it this time, and editors too seem happy enough with the 'wordage' not to bother!

Comments, fortunately, were less soapy than the reporting. "Words, words, words," wrote *Mail*, aptly enough (June 16). "The people would be fully justified in echoing Hamlet's cry of anguish. For nearly 23 years they have been fed on words, and they are understandably fed up ... Formless slogans and sodden clichés have

long since ceased to be acceptable as a substitute for action. But they are being dished out nevertheless." The new slogan of "socialist seventies", the paper conceded, is "infinitely better" than the slogan "quit poverty" given at the Bombay session of the party before. But what can be said of "from Bombay to Delhi"? "It no doubt is a long trek," *Mail* said. "And a very fatiguing one ... If it [the party] has taken six months to cover the distance, it must have foot-slogged; and the people can hardly be blamed for terming the progress tardy. They are apt to ask: 'How long will such a party take to find the Holy Grail?'"

Hitavada, likewise, noted the "vigorous verbiage", saying further that "failure to take or suggest any concrete steps to meet the problem of alarming unemployment in the country, and to arrest the steep rise in the prices, was made up by strong criticism of communalists". Referring to the Prime Minister's speech in which she "likened communalists to the Nazis" the paper suggested: "After this speech of the Prime Minister it would be easy to guess the future of the political parties which have been marked out as communal". However, since "Congressmen have taken very good care of their narrow selfish interests" and have had no time to "bother about the interests of the common people whether Hindu or Muslim", it would be no "surprise" if "tomorrow both the Hindus and the Muslims sink their superficial differences and join in overthrowing a leadership which has served only itself, and left the common people to fend for themselves."

HARDLY NEWS!

When Harold Wilson called a general election in Britain, the news was printed in *Indian Express* (May 19) as a single-column filler, consisting of exactly ten lines, on the front page. Others treated the news with hardly more respect and though *Times of India* and *Statesman*, among others, made brief editorial comments the next day, there was no mistaking the scant interest here in the election. This approach was generally kept up throughout the campaign also. However with the first signs of a return to Tory gov-

ernment there was a sea-change in attitudes, and the Tory triumph was announced in eight-column streamers. I asked a News Editor if he might not have displayed news of a Labour victory in just two columns, and he agreed! So much for the newsman's old saw, 'when man bites dog' etc.

"The British election of 1970 may well be remembered as a masterpiece of pseudo-science" *Statesman* wrote, for much of its calculation had been based on the opinion polls which in the end let everybody down. "What caused the electorate to vote as it did will no doubt be analysed 'in depth', as the current cliché goes, during succeeding weeks. Much of this afterthought, as of the earlier forethought, will probably be myth... The possible basic causes of Mr Wilson's catastrophe are more mundane and personal. British voters are notoriously fickle, and the margin of the popular vote is usually so small nowadays that a quite minor swing can have devastating results." The paper thought that Wilson and his party rank-and-file had taken "entirely too much for granted" and though "there is no particular evidence of any greater comparative love for Mr Heath, this was no way to win friends and influence people". Also, "only two Prime Ministers in a century have enjoyed more than two successive terms of office".

Deccan Herald echoed the general view of an "upset election". It thought "desire for a change, concern over inflation, memories of credit squeezes, wage freezes and other restraints have all played their part" in the election. The exploitation of the "atavistic issue of race" may also have influenced the outcome — "how much is a moot point" — and "Powellism is something that India and the other Asian and African members of the Commonwealth must take note of".

One might add as a footnote to this, that both V R Bhatt, *Hindustan Times*' man in Britain as well as *Statesman*'s "Special Representative" there, presumably Niranjan Majumder, did a competent job of reporting the election. Strangely, however, none of the usual commentators on foreign affairs, with the exception of T Gopalkrishnan of *Free Press Journal*, have yet afforded us an insight into the working of their mysterious minds. Perhaps they are, as usual, waiting for some cue from New Delhi!

5³/₄ Per Cent State Government Loans, 1982

State	Amount of Loan (In crores of Rs)	Issue Price per cent (Rs)
1. Andhra Pradesh	12.00	100.00
2. Assam	3.75	100.00
3. Bihar	5.00	100.00
4. Gujarat	16.00	100.00
5. Haryana	4.50	100.00
6. Kerala	6.00	100.00
7. Madhya Pradesh	7.00	100.00
8. Maharashtra	19.25	100.00
9. Mysore	10.50	100.00
10. Orissa	6.00	100.00
11. Punjab	5.25	100.00
12. Rajasthan	6.00	100.00
13. Tamil Nadu	16.50	100.00
14. Uttar Pradesh	13.75	100.00
15. West Bengal	11.00	100.00
	142.50	

All loans will open for subscriptions on Wednesday, 15th July 1970 and close on Tuesday, 21st July 1970 or earlier without notice as soon as subscriptions approximate to the amount of each issue. All the State Governments reserve their right to retain subscriptions upto ten per cent. in excess of the notified amounts.

The loans will be redeemable at par after 12 years i.e. on 15th July 1982 and interest will be paid half-yearly on 15th January and 15th July each year. Interest in respect of all loans will be liable to tax under the Income-tax Act, 1961.

Subscriptions may be in the form of CASH/CHEQUE.

Securities of the following loans will also be accepted AT PAR for conversion into the new loans of the respective State Governments:-

Name of the loan tendered for conversion	Name of the new loan issuable
1. 4% Andhra Pradesh State Development Loan, 1970.	5% Andhra Pradesh State Development Loan, 1982.
2. 4% Bihar State Development Loan, 1970.	5% Bihar State Development Loan, 1982.
3. 4% Kerala State Development Loan, 1970.	5% Kerala State Development Loan, 1982.
4. 4% Madhya Pradesh State Development Loan, 1970.	5% Madhya Pradesh State Development Loan, 1982.
5. 4 % Bombay State Development Loan, 1970.	5% Maharashtra State Development Loan, 1982.
6. 4% Bombay State Development Loan, 1970.	5% Maharashtra State Development Loan, 1982.
7. 4% Mysore State Development Loan, 1970.	5% Mysore State Development Loan, 1982.
8. 4% Orissa Government Loan, 1970.	5% Orissa Government Loan, 1982.
9. 4% Rajasthan State Development Loan, 1970.	5% Rajasthan State Development Loan, 1982.
10. 4% Madras Loan, 1970.	5% Tamil Nadu Loan, 1982.
11. 4% Uttar Pradesh State Development Loan, 1970.	5% Uttar Pradesh State Development Loan, 1982.
12. 4% West Bengal Loan, 1970.	5% West Bengal Loan, 1982.

Interest on the maturing securities accepted for conversion will be paid at the existing rate i.e. 4% in the case of 4% Bombay State Development Loan, 1970 and 4% per annum in the case of other maturing loans upto and inclusive of 14th July 1970.

Applications for all the loans will be received at the offices of the Reserve Bank of India at Bangalore, Bombay (Fort & Byculla), Calcutta, Hyderabad, Kanpur, Madras, Nagpur, New Delhi and Patna and the branch of State Bank of Bikaner and Jaipur at Jaipur.

Applications will also be received at other places within the respective States as follows:

- Branches of the Subsidiary Banks of the State Bank of India conducting Government treasury

- Branches of the State Bank of India at places where there is no branch of its Subsidiary Banks conducting Government treasury work.

Applications for Kerala State Development Loan will also be received at Treasuries and Sub-Treasuries in the State of Kerala at places where there is no branch of the State Bank of India or its subsidiaries conducting Government Treasury work.

Applications for Punjab and Haryana State Government loans will also be received at the State Bank of India, Chandigarh.

Copies of the Notifications and Application Forms may be obtained from any of the Receiving Offices mentioned above.

Applicants tendering applications at the offices of the Reserve Bank of India at Bangalore, Bombay (Fort and Byculla), Calcutta, Hyderabad, Kanpur, Madras, Nagpur, New Delhi and Patna will, in the event of over-subscription to the loan applied for, be given the option of transferring their cash refunds to any of the other State Government loans which may still be open for subscription. To avail themselves of this facility, the applicants should complete the "Special Option Form", copies of which can be obtained at any of the offices of the Reserve Bank of India mentioned above and tender the form along with their applications.

REVIEWS

A Call to Arms

A K Essack

A Handbook of Revolutionary Warfare: Guide to the Armed Phase of the African Revolution by Kwame Nkrumah; Panaf Publications; London; pp 122; 12 s 6 d.

REVOLUTIONS in each historical epoch have had their ideologists as well as their military strategists. In the violent upheaval that brought the middle class into power in the French Revolution of 1789, not only old feudal ideas and institutions, but also outdated military concepts were swept away. Revolutions among the oppressed peoples in the colonies and semi-colonies have also thrown up their own ideologists and military strategists. A distinguishing feature in the latter has been that the political thinker and the military strategist is usually one and the same person. Against the Imperialist War with its strategy of conventional warfare they have posed the People's War with its military strategy of guerilla warfare.

It is in this light that we have to look at Nkrumah's "Handbook of Revolutionary Warfare". He is the author of a number of books, some of the notable ones being "Towards Colonial Freedom"; "Africa Must Unite"; "Neo-Colonialism" and "Challenge of the Congo". Nkrumah is the founder of modern Ghana and is "the foremost leader of the African revolution and the inspirer of the African Freedom Fighters". He has been the leading advocate of Pan-Africanism and it was

through his initiative that the Pan-African Congress was held in Manchester in 1946. After the independence of Ghana another such gathering was held in Accra in 1958. Nkrumah believes that "the struggle for the liberation of Africa is the sacred duty of every black man. We advance fearless of hardship and ready to make sacrifices towards one great united Africa."

The blurb of his "Handbook" says, "It is an important and original contribution to an ever increasing number of books on the strategy and tactics of modern revolutionary warfare". The significance of this book lies in the fact that this type of writing is new to Africa. This book makes a clear and sharp break from the old path of political thought and action and heralds the beginning of a new life and death struggle against neo-colonialism.

National wars of liberation are already in progress in Mozambique, Angola, Portuguese Guinea, Rhodesia and Namibia. These have accumulated rich experience. What Africa has lacked until now has been a concise analysis of the new strategy of imperialism in Africa and how to defeat it. This is what the "Handbook" attempts to do. Nkrumah says "the modifications introduced by imperialism were ex-

pressed 1) through disappearance of numerous old former colonies owing exclusive allegiance to a single metropolitan country, 2) replacement of national imperialism by collective imperialism in which the US occupied a leading position". He cites the rulers well tried and trusted methods of divide and rule for "imperialism usually resorts to all types of propaganda in order to highlight and exploit differences of religion, culture, race, outlook and political ideology amongst the oppressed masses and between regions which share a long history of mutual commercial and cultural heritage".

Against the world strategy of imperialism, he pits the strategy of the African Revolution which involves the creation of the All African Peoples' Army for as he clearly states "Africa will be liberated sooner or later against all odds. But if it is to be soon, by an accelerated revolution of the people, then we must establish a unified continental command here and now to plan a revolutionary war and to initiate action".

The objectives of the struggle he lists as 1) Nationalism, 2) Pan-Africanism and 3) Socialism. On nationalism he says, "The nationalist phase is a necessary step in the liberation struggle, but must be never regarded as a final solution to the problem of economic and political exploitation of our people". He sees the success of the Pan-African goal being linked up with the elimination of foreign oppression and neo-colonialism and the "necessity of the African nations developing within a continental

framework". Of the latter he says "There is only one true socialism and that is scientific socialism, the principles of which are abiding and universal... only under socialism can we reliably accumulate the capital we need for our development, ensure that the gains of investment are applied to the general welfare and achieve our goal of a free and united continent".

Of particular importance is his exposure of the puppet state in Africa for he says "a state can be said to be a neo-colonialist state if it is independent *de jure* and dependent *de facto*. It is a state where political power lies in the hands of the conservative forces of the former colony and where economic power remains in the hands of international foreign capital. In the ideological field they defend capitalist free enterprise and capitalist institutions. In the military field they allow their countries to be used for military and naval bases for imperialism".

The author has pointed out how these client states formed their own unity in opposition to continental and political unity. It is they who met in Lagos in 1962 and passed a resolution which defended their reactionary interests. These were: "1) The absolute legality and sovereignty of each African state must be respected. 2) There should be no interference in each others affairs". Outwardly there could be nothing wrong in this, but in the particular African context, imperialist inspired and directed military coups could take place and the radical states could do nothing about it for they were bound by the "non-interference" clause. These coups ousting radical and progressive governments had a qualitative effect on the Organisation of African Unity (OAU).

In a spirit of self-critical objective analysis, Nkrumah examines the OAU and finds serious weaknesses in it. He shows its helplessness on four major issues,—Rhodesia, Namibia, Congo and the treatment of African political refugees. And his comments on this body are that "tactics in the OAU today hide concessions to imperialism... it serves as a kind of insurance against any change in the *status quo*, membership providing for protection for heads of state and government against all forms of political action aimed at their overthrow". He adds "The imperialists although against the idea of a political union will do nothing to break the OAU. It serves their purpose in slowing down revolutionary progress in Africa."

It is from this analysis of the workings of imperialism that Nkrumah has come to the conclusion that the only way out is to fight imperialism by way of armed struggle for as he says "either we concentrate our forces for a decisive armed struggle to achieve our objectives, or we will each fall one by one to the blows of imperialism in its present stage of open and desperate offensive".

The armed struggle would take the form of a People's War. The people in this context would consist of peasants, workers, students and the anti-imperialist section of the national bourgeoisie. He also includes "men and women of African descent living overseas". Thus, Nkrumah's concept of the people includes 20 million Afro-Americans in the US and also those in the Caribbean.

He lays particular stress on the role of women, laying down guidelines for their political and practical training. He highlights the important role the rural proletariat in the cotton, sisal, cocoa, rubber, citrus fruit and other plantations will play in the coming struggle. "The agricultural labourers are the quickest to grasp the problems of the revolution... are in daily contact with modern economic realities and

exploitation... they are the strategic links in the chain of exploitation of our material and human resources which we are determined to break".

He calls for the arming of the entire people and the formation of an armed militia "for otherwise the masses cannot manifest their power in the struggle against the enemy".

The key to the prosecution of the armed struggle has been the formation of the All African Peoples Party. The soldier's role would be that of a fighter but also that of a producer and his duty first and foremost would be to serve the broad masses. Like Giap in his "People's War" and Truong Chinh in his "Primer" the "Handbook" also deals with the basic and elementary principles of guerilla warfare, organisation of a guerilla army, matters pertaining to health, storage of arms, sabotage and espionage. "All these are intended to provide a ready reference to the guerilla", he says.

Nkrumah's book comes at a time when there is growing maturity in the political thinking of the African people. It is not enough to say that now there are African governments. The burning question that is being asked is "Whom do they serve"?

OFFICIAL PAPER

A Fire-Brigade Operation Still

Subrata Banerjee

Proceedings of the Conference on Public Relations in Public Undertakings; Information and Research Division, Bureau of Public Enterprises, Ministry of Finance, Government of India, New Delhi, 1970.

DURING the last decade we seem to have suddenly become aware of the need for public relations in every field of activity, especially industry. The Public Relations Society of India has already organised two conferences. So has the Bureau of Public Enterprises. The reasons for this sudden interest are not far to seek. The economy has become more complex and social tensions have increased. The public enterprises are facing increasing criticism and are being called upon to justify their very existence. In the ultimate analysis everyone is trying to resolve the rapidly emerging social tensions without basically changing the existing institutional frameworks. The answer to this vital problem is sought in public relations.

Let us face it: PR is still consider-

ed a fire-brigade operation and just a communication problem. This limited understanding of PR permeates practically every gathering of public relations practitioners. As a result there is very little discussion on problems, policies and practical aspects of public relations activities. On the other hand, there is a great deal of whining and moaning about the lack of status for PR practitioners and non-recognition of their importance by management. The second conference on Public Relations in Public Undertakings was no exception, as the published report of the proceedings reveal. Apart from discussing the problems of PR in public undertakings, it also had a whole session on what PR practitioners in Public Sector Undertakings expect of their top management.

The objectives of the conference

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were: to stress the importance of PR in public enterprises, to define its role in relation to the organisation and the public and to emphasise the vital need for a planned and sustained two-way communication and effective PR techniques. The conference was attended by representatives of 60 out of 83 public enterprises and addressed by some Chief Executives from both private and public sectors. Quite a few of the participants were experienced PR practitioners. One did expect some discussion in depth. The proceedings, however, are rather disappointing.

Some important questions were posed at the very outset. The co-ordinator, R K Nigam drew attention to the fact that the complexity and character of public enterprises posed special problems in PR. He also emphasised that it was not always easy to create a proper image unless one identified oneself with the basic objective and its realisation. P C Sethi, Union Minister of State in the Finance Ministry, also referred to the national purpose of public enterprises and their relationship with the local communities. Unfortunately, none of these issues were discussed. As a result, the conference failed to get down from heights of abstraction to the everyday life of concrete reality. Many a well worn out text-book formula was repeated instead. No attempt was made to pool the practical experience of representatives of 60 institutions. It was only Romesh Thapar who made some attempt at a sort of a case study. No one pointed out that public relations, if it is not to be an empty phrase, should be considered primarily as the practical expression of social responsibility and only then talked about.

Communication is only a tool of public relations. This is really what is meant by the oft-repeated statement: "Ninety per cent doing good and ten per cent talking about it". And yet, the only "doing good" that was discussed was from the commercial point of view. This is understandable, because the ideological attack on the public sector is presented from this angle. Our PR practitioners fell a victim to it, despite the fact that the Administrative Reforms Committee was quoted as placing greater emphasis on the non-commercial objectives of public enterprises than on profitability. And this is not really an escape-valve to cover up the much criticised inefficiency.

Effective performance by the institutions concerned is certainly important. There can be no effective performance unless the social, economic and even

political objectives of public enterprises are not only clearly defined but understood by all concerned. This question was actually raised at the conference by Tiwari and, as usual, ignored.

Towards the close of the conference A D Moddie rightly pointed out that there was no discussion on PR policies for public enterprises and the need for research. Nor was there any attempt to define the universe of PR communication for the public sector institutions. The syndicate on the Problems of Public Relations in Public Sector Undertakings tried to formulate the objectives without even considering the problems. The objectives were considered only from the point of view of communications. The problems covered information channels and that too without considering the problem of media in a country vastly illiterate. The main concentration was on the Press, which gives us a readership of about 32 million out of a literate population of about 105 million. This syndicate also discussed the functions and responsibilities of PR personnel and the planning and organisation of the PR department.

Reading the Proceedings one cannot escape the conclusion that the role of public enterprises in our economy is not really understood by either the top management or the PR practitioners. How can one even think of social responsibility and involvement in the basic objectives of public enterprises? In the circumstances, it is only natural that these questions did not find much place in the discussions in the Syndicate dealing with what PR practitioners in public sector undertakings expect of their top management. The report of this Syndicate reads like a charter of demands and nothing more.

If a gathering of experienced PR practitioners is unable to formulate the basic PR problems, define the basic PR policies for public enterprises and if there is no informed discussion on the problems and the media of PR communication, what is the use of whining and moaning about status? The elevation of Public Relations to the level of a scientific discipline and securing its recognition as an integral part of modern management is a major problem. It is, *per se*, a difficult task, because the results of PR cannot often be immediately measured in concrete terms, but only in the long run, and at moments of crises.

Public Relations for public enterprises is a far more difficult task. Their universe is really the entire adult popu-

lation, about 200 million, of which only about 24 per cent is literate. Initially the public sector ignored even the communication aspect of public relations. Adverse criticism has made top management and Government aware of the need at least to provide information. But this information, as one of the speakers at the conference pointed out, must also be valid and relevant to the people concerned. It must be available at the right place and the right time. As P N Mookherjee said at the conference, the workers spend 16 hours of their life outside the factory and the community outside moulds their opinions.

It is not merely a question of information and its content. The performance of the institutions concerned has to be improved. There has to be a great deal of public relations activities not merely among the employees, but also among the communities in the neighbourhood of the factories. The role of a public enterprise includes conscious efforts at the social transformation of the area in which it is situated. This is its most important public relations activity. This is the only way to make the public feel that the public enterprises are not only owned by the public, but exist for the public.

PR communication for the public sector is really development communication. It demands an interpretation of facts in terms of human needs, in terms of their own experience. It is a continuous and long-term process and needs as much planning as development does. It calls not only for trained personnel and a professional approach, but a great deal of imagination and involvement. This cannot be achieved unless the performance of the institutions concerned improves and there is planned and dynamic PR activity at every level.

Without such a development, conferences, higher status for PR practitioners, bigger budgets, standing committee of public sector PROs, joint campaigns by allied institutions, exposing PR personnel to broader general management problems and other such concrete suggestions that emerged from the conference would be of little avail. It is high time we started to take public relations a little more seriously. In this context the responsibility of the public relations practitioners in the public enterprises is all the greater. It is they who will have to emerge as the pace-setters, just as the public sector is expected to be the pace-setter for Indian industry.

International Social Science

Some Political Aspects

Satish Saberwal

The expansion of the USA's role in the world is paralleled by the growth of interest among American social scientists in "the problems" of the poorer world. As the Americans and the Canadians have greater financial and scholastic resources at their disposal for social science research, they have been able to acquire vast "banks" of information.

Very often this information has been collected for or used by the American Department of Defence and other American agencies for their own dubious purposes in Afro-Asia and Latin America. Other Western (which includes Russian) social scientists have also wittingly or unwittingly, played a political role in pursuing their "academic" work.

The author examines the relationship of North American social scientists with the poorer world. He classifies them into three groups, the Supremacists, the Purists and the Reformers. The Reformers are a small minority group and are the only ones concerned about the political-ethical implications of international social science. He suggests that African and Asian social scientists should scrutinise Western social science tracts more carefully and should develop the social sciences in their own countries with greater energy.

AMONG the most cherished rights in the domain of scholarship is that of academic freedom, that is the right to inquire and to publish one's findings without fear of reprisals, political or other. This right is (or has to be) located in a context which stresses the autonomy of the academic institutions as against governments or other sources of financial support and the scholar's intellectual integrity which would save him from compromising his work in the service of special interests.

Insofar as the task of the scholar *qua* scholar is done when he has made the findings of his inquiry public, and where the findings can be harnessed to the advancement of special interests, scholarship can become—sometimes unwittingly—a tool of the latter. Such exploitation of scholarship increases in proportion as: (1) some segments of the population (more educated, more powerful, wealthier, etc) have greater access to the resources of scholarship than other segments, and (2) the processes of politics deny adequate participation to the less resourceful segments of the population.

These considerations guide the following inquiry into one segment of scholarship, namely the conduct of social science research by North Americans in the poorer countries.¹

I

Sections IV and V below will recapitulate what is common knowledge: that international social science research from North American

bases has grown rapidly during the past twenty years. I shall argue that major resources became available for this enterprise because the policy makers in the United States saw in it a major new device for advancing their country's international purposes. As the scholars acquired the capacities to be so useful, and as their findings and their skills were in fact deployed for the task, the conduct of social science research internationally came under increasing attack from the host countries. This reappraisal of the nature of international social science, in which some North Americans have also participated, has added up to a substantial body of literature.² These stresses originate in structural faults of great depth and admit of no palliative (such as displayed by Ralph Beals, 1967); for Afro-Asians, the task of seeking to understand their nature can no longer be delayed. Insofar as the greatest concentration of social scientists and of social science research funds is in the United States, the substantial focus of this paper will be on the US social scientists who do research abroad and on their relationship with the politico-military establishment of their country.

The analysis would have gained in value had it also covered (1) the foreign students who receive graduate training in the social sciences in North America,³ (2) the non-Western social scientists working in their home countries, and (3) their relationships with Western social scientists. This paper alludes to

these only briefly and tangentially.

It would be useful to note the monumental difficulties in such an attempt. These social relationships are very widely distributed in space, and published data concerning their international dimension are non-existent. Although accounts of fieldworker-host society relationships have recently been published in generous measure (see the introduction to Henry and Saberwal, 1969), there are none involving social scientists of different countries. This is broadly understandable, for the contacts between them are distantly pleasant, rarely involving either the intense rivalry for control over resources or the intimate and productive co-operation between intellectual equals—the kinds of interaction which produce interesting biographical copy⁴.

Moreover, these role relationships admit of very great variation, arising from differences in the home and academic backgrounds of the participants in the social system and in the intellectual, financial, and other properties of the context wherein the interaction occurs. This brief paper mentions some of the issues in this area of inquiry; further work is clearly warranted.

II

Rajni Kothari has noted one of the most important canalising factors influencing the content of the relationships in ISS (*International Social Science*, 1968, pp 16-17):

...ever since the sixteenth century both in the pursuit of political

power and in the pursuit of scientific knowledge, the West has outstripped us. Let us also recognise that some of these powers, especially the United States and the Soviet Union, have acquired an imperial position in the world. If they pursue policies congruent with their positions, this is to be expected. Specifically, it would be foolhardy to expect that intelligence agencies and defence departments would not progressively pursue their avowed as well as implicit objectives.

Few would challenge Gellner (1964) in his judgment that the decisive influence and the primary transformation of our time are represented by industrialisation. It is fair to assert that the scientific-industrial complex is the most important, primary, 'independent realm' of the contemporary scene (Saberwal, 1969). Its most definitive and spectacular thrusts occur repeatedly in the countries of the West (which, from our perspective, includes the Soviet Union): we see them going for the moon, harnessing nuclear energy, offering systemic analyses of social groups, institutions or processes.

Polite obfuscations to the contrary notwithstanding, the Western countries are, in critical ways, cultural and intellectual donors, those of Afro-Asia, the recipients. But the significant communications of the West (leaving aside the propaganda by the British Council, USIS, and the like) are addressed to those who have had the experiences routine in the West. Consequently, for the poor country's academic, the experience of intellectual socialisation contains numerous discontinuities, *non-sequiturs*, what Chauhan (1967, p 109) calls the "misconnections" between the abstractions learned and the reality experienced. It is this experience of unfinished Gestalts—the feeling that where the messages originate fuller Gestalts are more easily available—that underlies our academics' urge to go West, their version of the 'craze for foreign' (Naipaul, 1964): it is their search for the magical experience and knowledge which would relieve the sense of impotence and give them power. Hence the inadequate use of the faculties for critical appraisal: too often what is offered by the West—or by someone with a Western base—is accepted without due scrutiny.

III

Until the end of the nineteenth century, Marx apart, Western social science was largely speculative. When the discipline of anthropology emerged,

ed, its practitioners relied primarily on travellers' tales and other general accounts. (Morgan's systematic collection of kinship protocols through missionaries and diplomats abroad was a major innovation.) The sociologists used published records and sometimes social statistics about suicide rates and the like. Traditions of fieldwork among the peoples studied were developed and highlighted by Franz Boas in North America and Malinowski in the UK. This research may have been fitfully aligned with welfare activities connected with these groups, but I can think of obvious examples.

Prior to World War II there was, besides, the kind of interest seen in the work of Alfred Kroeber and Pitirim Sorokin, a broad historical and humanistic scholarship, built on library sources. During this period the choice of fieldwork sites by the academics of a particular imperial power was in that power's territories; the others entered only in the occasional niches: Ralph Linton in Madagascar, Melville Herskovits among the Dahomey, the *Wisers* (USA) in Uttar Pradesh, Lauriston Sharp in Australia, Lindblom in Kenya, and so forth.

The imperial powers used the anthropologists and their findings only sparingly, though the British administrators often had exposure to anthropology. Some of them produced substantial monographs (H E Lambert from Kenya) or even graduated to academic roles (J H Hutton from India). Conversely, academic anthropologists had a tendency to appear in operational roles in wartime. Thus, Boas (1919) denounced some of his colleagues for espionage activities during the First War. During the Second War, Evans-Pritchard led Anuak guerillas in South-west Sudan (Gluckman 1965, p 166, note 1) and Edmund Leach was 'engaged in raising a force of Kachin irregulars' in Burma (Leach 1964, p 311). Evans-Pritchard and S P Nadel are also known to have performed administrative roles in North Africa during the Second War.

In the colonies the social science disciplines grew slowly if at all. In India a few departments emerged around assertive scholars (I think of C S Ghurye at Bombay and D N Majumdar at Lucknow), but faculty salaries and small library budgets apart, there was little support for research. Departments once established continued largely because the process of their establishment is not ordinarily reversible.

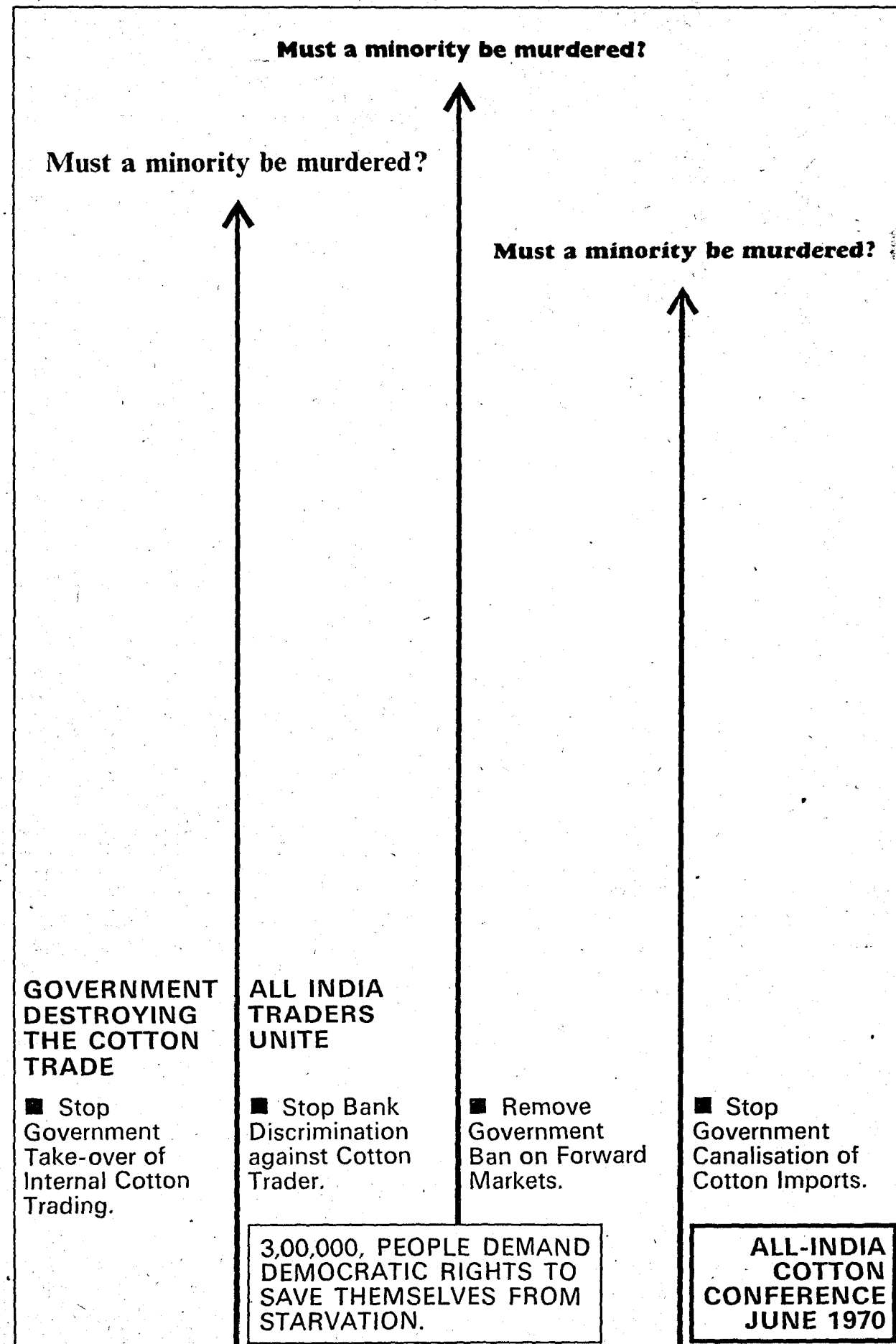
IV

In the United States the late 40s was a time for the growth of "soft interest" in the Third World, drawn from the humanistic tradition of scholarship which considers all experience to be its province. For anthropologists the ground had been prepared by the etymological interpretations of their discipline's coverage; it covered all mankind (consider: Herskovits' 'Man and his Works' Kroeber's 'Anthropology: Race, Language, Culture, Psychology, Prehistory', or any text-book definition). Also, during World War II both anthropologists and the ethnological record had been made a part of the United States' war effort: anthropologists advised the United States government on cultural aspects of combat policies in relation to Japan and other adversaries, and ethnological sources in the Yale University library and elsewhere were scanned for preparing guidebooks for the US forces in Asia. According to John S Foster, the Director of Defence Research and Engineering in the US Department of Defence:

...the importance of social science to military operations was reflected in the Navy's sponsorship of cultural studies of Micronesia and Japan in 1946. In 1949 the Air Force initiated the Human Resources Research Institute which dealt largely with social science problems. The Human Relations Area Files at New Haven, Connecticut was originally supported by the Navy, and in 1956 this responsibility was assumed by the Army (Committee on Foreign Relations, I:86).

Note that the Human Relations Area Files was organised in New Haven, the seat of Yale University, and drew in substantial measure upon the University's anthropologists and library collections. In the aforementioned ways, during and after World War II, the idea of placing social science expertise at the service of the politico-military establishment was made legitimate.

Before World War II, the number of North American social scientists doing research abroad was small: neither social science nor foreign areas were of much interest to those who had economic and political power in the United States. After the War, there was a steady increase in research abroad from North American bases. It sought broadening of the data base of the various disciplines: work in the United States alone—or in the Euro-American cultural contexts generally—was suspected to be culture-bound and it was believed that this bias could be corrected by basing the



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generalisations on a wider range of cultures. For individual academics' career paths, there was much value in claiming special interest in exotic parts of the world at a time when the older imperial powers were withdrawing from their colonies and the United States was attempting to "fill the vacuum".

However, the discovery was soon made that summer and sabbatical leave fell far short of the major investments of faculty and graduate student time for the enterprise; academic diplomacy in relation to the countries where research was done required control over fellowships and assistantships which could be offered to collaborators of one sort or another; library acquisitions in new domains had to be vastly expanded; and where interpreters had previously often been adequate, the researchers now felt the need for a brand new range of linguistic skills.

If the development of African Studies at Northwestern University under Melville Herskovits during the thirties and the forties is a guide, this "soft interest" would have continued in small time channels. But it acquired the major dimensions which it did because it came to join the hard interest represented by the United States' imperial thrust, which began in the early fifties and steadily escalated. This happened as the wielders of power increasingly recognised the value of social science reports, from areas not subject to direct political control, both for the purpose of intelligence and, when necessary, even for intervention.

V

Since I am not a professional student of the United States' foreign policy, my statement of the hard interests of the United States—or of its political objectives overseas—can only be the lay view of a moderately well-informed man. Precise actions reflect the stimulus of particular situations, the changing political pressures at home and changing alternatives abroad; however, the enduring elements in these objectives during the past two decades are probably the following:

Countless observers have noted that, in relation to the Third World, "Keep Communism at Bay" has been a prime determinant of the United States' activities abroad (for example, see Erasmus, 1968 and Brokensha, 1968). At least in non-communist countries, the communist movements normally express the aspirations of the poor and the disinherited against the established regimes.

Since these communist movements look to the Soviet Union, China, etc., both for inspiration historically and material aid of various sorts contemporaneously, and since the United States views itself as threatened by the Soviet Union and China, the US government invariably finds itself aligned with the established regimes against the movements of the poor. The client regimes receive various sorts of aid from the US. These may include community development type "pacifier" programmes, military equipment and training for local forces, and covert CIA-directed or aligned operations. It is in anticipation of these last becoming necessary that, in recent years, the Pentagon has sponsored "counter-insurgency" research on a large scale (see the *Current Anthropology* exchanges listed in the bibliography under Berreman): "Counter-insurgency" research requires social scientists not only to locate the possible sources of violent protest but also the possible means of preventing or crushing the protest.

Where, despite US opposition, the established regime is overthrown and the new regime shows defiance of the United States, covert and overt operations are also undertaken, designed to undermine such regimes: Cuba, Guyana, Guatemala and Cambodia will serve as examples.⁵

An associated element is the US desire to retain broad access to raw materials needed by US industry (and by the population at large), opportunities for the home firms' expansion, and protection for their investments, which are sometimes threatened by changes in local regimes.

In order to advance these objectives the United States feels the need for enormous amounts of data concerning the countries of Africa, Asia, and Latin America. Consequently this information is collated and analysed in massive social science "data banks". Channels for supplying all types of books, journals, and newspapers to US libraries have become a major international industry. In true competitive free enterprise fashion, the barons of the universities compete with one another for transporting archives from countries all over the world — in original or on microfilm — to their home campuses. Fieldwork funds and opportunities are multiplied, largely for US citizens but also occasionally for others, usually foreign students returning to home territory for inquiry. There is usually one provision, explicit or implied: that is that all the data will be processed and

sent to addresses in the United States. It will perhaps be said that all this is innocent scholarly activity: the point is that these accumulations of data in the United States, under the control of US academics, make them readily available for the advancement of the United States' foreign policy and not for those who would resist it. Every single transaction leads to an increase in the US information resources in relation to the particular country involved and, by extension, the rest of the world (Galtung, 1967). Some of the data banks are open to anyone from anywhere in the world, creating the illusion of academic universalism (Beals, 1970); the gap between the illusion and the reality parallels that concerning the prospect for the Negro child in Harlem becoming the President of the United States.

To sum up, then, it is part of the political objectives of the sponsors of foreign research in the United States to ensure that their present resources (including whatever goodwill may exist) are used to ensure future dominance. This is characteristic of most contexts of social stratification. By making anticipatory investment of current resources, the top dogs express their flexibility: if they don't, they run the risk of becoming obsolescent. The United States government pumps money through a variety of conduits into Language-and-Area-Studies Programmes in order to ensure that the United States will know more about other countries than any other power; ideally, from the US viewpoint, authorities in the US should have more and better information about every other country than authorities in that country itself. Sometimes they reach this objective. Informational superiority is one of the major forms of contemporary political one-upmanship.

In the attainment of this objective, the Pentagon and the CIA appear to have been riding academic horses; in any case the inverse relationships need not even be mentioned (Horowitz 1968, p 33). Thus, in the mid-50s the US Congress established programmes for training in languages and in social science content in respect of Afro-Asian countries. These programmes have grown steadily over the years. Their funds are provided by the United States government under the National Defence Education Act. My academic friends in the United States have told me that the word "Defence" was introduced into the title in order to make the programme more palatable to the Congress; it may also be that the Pentagon lobby was active on behalf of the pro-

grammes for the same reason. In any event, the student of the Pentagon-academe concord in the US will find a

VI

On the basis of sustained observation of North American social scientists, spread over more than a decade, I find it possible to classify them into three ideal types in relation to their attitude towards the Third World: the Supremacists or the Amoral Nationalists, the Purists, and the Reformers.

The Supremacists or the Amoral Nationalists: Their attitude centres on the premise that the United States' living standards are the highest in the world, and this resource should be translated into whatever means are necessary for enhanced US domination in the decades to come. They are a small minority among the US social scientists of my experience, and they are too polite to express such views to foreigners normally, but I will cite three examples, the first two based on direct experience and the third on a direct report.

Justifying the United States' engagement in Vietnam in 1966, a US anthropologist teaching in Canada said, "If communists are not prevented from taking over Vietnam, they'll become bolder and advance into Thailand, Malaya, Burma, maybe India, who knows?" Asked what was wrong with the Indians or the Burmese choosing to go communist, he replied that the communist countries would ultimately unite against North America and threaten its high living standards; that long-term threat had to be prevented from developing, even if this implied strengthening the hands of incompetent ruling groups.

In the late 50s, a large team of social scientists from Michigan State University was located in Saigon, doing research intended to aid and strengthen the Diem regime. Financed by the US government, the team provided "cover" for a sizeable CIA operatives contingent. The fact that a university had done this evoked considerable adverse comment in the United States (e.g. Horowitz, 1966). When I asked a young, but powerful, anthropologist at Michigan State University to comment on his university's involvement with the CIA, he replied, "Every country looks out for its interests; nothing is wrong with our boys working for the CIA".

To cite a further example, in 1967 a distinguished Canadian University ap-

pointed a committee to consider proposals for expanding international studies at the University. A well known political scientist proposed the establishment of an Institute for Foreign Policy Research which would systematically examine other nations' foreign policies. In response to a question in the Committee, this gentleman said that the Institute would accept contracts for secret research from the Canadian War Office or other agencies willing to provide funds. The Committee included several Reformers (see below) who pointed out that such research evoked grave apprehension in Afro-Asia and that it should have no place in a university setting. The gentleman replied, "What a stupid Afro-Asian politician thinks is not going to determine what I do." To the credit of this renowned Canadian University, the proposal for the Institute was killed though it must be recorded that similar academic groups flourish elsewhere in North America (See, for examples, Committee on Foreign Relations, I and II).

The Supremacist thought-style comes through clearly in the Report of the Panel on Defence Social and Behavioural Sciences discussed by Greenberg (1967) and Horowitz (1968) and reproduced by the Committee on Foreign Relations (I, pp 65-85). The Panel offered a "Strategy for Defence Supported Foreign Area Studies"; the following summary by Greenberg (1968) is relevant to our discussion:

"To maintain an adequate base for planning and for the conduct of military operations when and where they may occur", the panel states, "the US military establishment must have access to a steady flow of knowledge that originates in social science studies conducted by US and foreign scientists engaged in unclassified research tasks overseas". Though some of the Department's needs can be met through research supported or performed by non-Defence organisations, it continues, "there is a residual amount of work that should be performed by DOD agencies even if substantial programmes of studies were conducted by other organisations". The panel adds that, since Congress has shown an interest in transferring sponsorship of foreign area research to "non-mission" agencies, DOD programmes should be conducted in a manner that will "facilitate the transfer of established programmes as well as the development of new and innovative efforts by civilian agencies". But it notes that "for the immediate future it is important that the Department of Defence maintain a strong programme of foreign area studies pending such time as other arrangements can be established". This is followed by a proposed "research

strategy for military agencies", with priorities assigned as follows:

- "1 Support by military agencies of programmes that are visible and patently useful to the host country ...
- "2 Support by military agencies of programmes that train foreign social scientists to elucidate the problems of social change in their own countries.
- "3 Support of social science research to be conducted by independent indigenous scientists ... The problems to be studied are those of high mutual interest such as the analysis of social change, political modernisation, national development, and intergroup relations.
- "4 Social science tasks to be conducted by major US graduate studies centres in foreign areas that utilise US based foreign students in training and research enterprises in the countries of their origin ... These linkages should be sustained over time so that they can serve as channels for intellectual development with the friendly support of US scholars ...
- "5 Conduct of individual studies by US professionals acting as independent investigators to study high priority problems in foreign areas.
- "6 Studies of military establishments of allied nations carried out by foreign social scientists who could make a start by attempting to learn the applicability of US developed principles, instruments and operational practices to foreign military establishments. The same type of comparative studies can be made with the military procedures of other advanced nations. Understanding of the process involved in the handling of cross-cultural conflict and co-operation is of critical importance.
- "7 Support of studies based in the US that exploit data collected overseas by investigators supported by non-defence agencies.
- "8 Collaborate with other programmes in the US and abroad that will provide continuing access of Department of Defence personnel to the academic and intellectual resources of the free world. The Department of Defence needs for foreign area knowledge are increasing so that strenuous efforts are necessary to ensure that the Department of Defence is not excluded from the innovating influences on policy planning and strategy that exist in universities after foreign area studies are transferred to civilian agencies". (Italics mine: ellipses Greenberg's.)

Briefly, as the initial comment presenting this "strategy" lucidly states, its core objective is to ensure "a steady flow of knowledge" about foreign areas to the US military establishment. In

this endeavour use is to be made of "US based foreign students...in the countries of their origin..."⁶ Whatever other interests need to be satisfied ("programmes that are visible and patently useful to the host country...") and whatever established academic conventions ("conduct of individual studies by US professionals acting as independent investigators") can be harnessed to this enterprise should be taken care of. And an example of what is meant by "Support of studies based in the US that exploit data collected overseas by investigators supported by non-defence agencies" is furnished by the Pax Americana study, which will be discussed below.

VII

The Purists: Perhaps a majority of the North Americans in the social sciences treat it as a vocation, a career like any other, and subscribe to the advancement of knowledge as a general academic norm. Concerning the ends to which the knowledge is put or is likely to be put they prefer not to think; they act on the premise that the world is really too complex for one to think through all the chains of consequence, and that it is best to concentrate on one's limited job — writing papers and books, lecturing to students, etc. Hopefully, everything will turn out well, and the true and the righteous will triumph.

This position reminds me of Malinowski's functionalism: everything that happens has utility. Questions concerning utility to whom and at whose expense are not to be asked. Among the soporifics often employed to tide over a difficult spot are: "you're magnifying the political aspects of the thing way out of proportion; you don't understand the responsibilities of a great power; this matter requires further research, and you should interview a sample of social scientists in the US and elsewhere to determine why they do what they do; the CIA did some silly things, but now things are going to be okay; and so forth.

It is the purists who have led the recent drive in the United States to separate the "clean" guys from the "messy" guys: for example, early in 1968, Cornell University moved to sever its institutional ties with the Cornell Aeronautical Laboratory (CAL) located in Buffalo, 150 miles from the Cornell campus. Reports in *Science* (Vol 159, no 3811, 12 Jan 1968, p 175; and no 3814, 2 Feb 1968, p 515) said that over two-thirds of CAL's \$ 30

million annual research was done under contract to the Department of Defence. About one-half of this was secret. "Among the reasons cited by the (special Cornell) Committee for its recommendations (that Cornell sever its ties with CAL) were the overlap and potential conflict between CAL's overseas research projects and the University's expanding programme of international studies". (Specifically, I gather that the Aeronautical Laboratory did counter-insurgency research.)

This kind of house-cleaning helps to pacify turbulent students on university campuses; it also enables the university-based researchers overseas to declare truthfully that they have nothing to do with the Pentagon. But surely the Cornell Aeronautical Laboratory can readily hire men who have recently done research abroad from university bases, and the Pentagon can continue to provide "support of studies based in the US that exploit data collected overseas by investigators supported by non-defence agencies..." (the Panel's recommendation no 7, section VI above). Only a re-alignment of the channels through which the findings of the US social scientists' research abroad become available to the Pentagon is indicated.

VIII

Data from academe to the army and the CIA flows through various channels, as can be confirmed readily from anyone familiar with the North American academic scene. For example:

—The fact that a Harvard economist was a consultant to the CIA recently became public when the University's students got hold of—and published—some confidential papers concerning their professors.

—An anthropologist on the faculty of the University of California visits Thailand several times every year in connection with the US army's counter-insurgency operations there. While there he has the status (and the uniform) of a middle-ranking Army Officer, with all the rights and privileges of that role.

—In 1966, on the basis of a study commissioned by the American Anthropological Association, its author reported "with considerable confidence", *inter alia*, that:

"Anthropologists...have been full or part time employees of the United States intelligence agencies including the CIA especially, either directly, or through grants from certain foundations with questionable sources of income, or as employees of private re-

search organisations..." (cited in Nelson 1966, p 1525).

—Early in 1968 the North American press carried reports to the effect that the US army had sponsored a study called Pax Americana, done by the Douglas Aircraft Company. In correspondence with Senator Fulbright, a Department of Defence official said that "In order to avoid unnecessary and undesirable political repercussions involving the United States or foreign governments, Douglas performed the study only within the continental United States and exercised special discretion in making contacts. The final report was classified for the same reasons." (Committee on Foreign Relations II p 35). The discussion in the Committee on Foreign Relations suggests that the report examined the likely power alignments in the world between 1965 and 1985, the place of "the US imperium" in it, and the role of the US army in the likely events. The participants in the above discussion, most of whom had access to the classified report (or an unclassified version of it) branded the study as rather silly; but the point is that the massing of social science research in "the continental United States" enables the politico-military establishment there to harness it to its objectives, sometimes through very unlikely intermediaries.

IX

The Reformers: A substantial minority of North American social scientists holds that the world is in a bad shape and needs to be changed in various ways. They earn various titles, such as "Left", "activist", "Liberal", etc. They attack "non-liberals", support "progressive" ideas, sign advertisements in the *New York Times* against the Vietnam war, and write letters to editors denouncing white racism. However, the Reformers are not, by and large, taken seriously in the context of North American politics. Academic cloisters give them a near-Parliamentary immunity for launching attacks; but they have very few votes. The high North American salaries ensure that, with very few exceptions, these gentlemen will behave reasonably. The Unitarian Church was once characterised as propagating "the brotherhood of man in the neighbourhood of Boston"; in many ways the description fits the Reformers too.

The difficult situation of some of the Reformers deserves sympathetic understanding. The white liberals in South Africa, who find the political situation

in their country intolerable, can usually emigrate to one of the Euro-American countries without a significant reduction in their standard of living. For those in the United States who realise that the international postures of the US imperium are no less odious than those of the South African white minority, however, there are few places to go to without unacceptable losses in the standard of living. Even those who would accept some sacrifice can expect to find only an uncertain welcome in the young Afro-Asian nationalisms: JBS Haldane's was a rare, and not entirely happy, exception. So they make their peace with the situation as best they can.

X

In private discussion the North American social scientist is likely to plead that his work is open and generally available. This is usually true, although the case of the small-circulation report (nothing secret, only reproduced in a limited edition of a hundred copies) addressed specifically to the Pentagon, AID, or what-have-you is common enough. The essential fact to remember is that the capacity to commandeer social scientists' expertise is differentially distributed. These gentlemen operate in a particular social context and, like the Joneses next door, they too respond to monetary incentives: Horowitz (1968) has examined why the US social scientists are so anxious to get contracts (open or secret) from the Pentagon: it controls six billion dollars in research money annually.

The enormous influence exercised by this rather large "Defence" research budget upon scientific work in the United States (and in universities abroad doing contract work for the US Department of Defence) deserves notice. Baffled by the number and variety of pies in which the Department of Defence had a finger, Senator Fulbright told John Foster (see Sec IV above) that "it gives the impression that this whole country is a militarist government. We seem to have no other department that is of much significance here."

"Dr Foster: Mr Chairman, I would be perfectly happy to have another agency initiate such work. We then would reconsider whether or not such efforts were necessary by the Department of Defence."

"The Chairman: ...It again comes back, I suppose, to this matter of money. Nobody has as much money as you have to spend in this and other

areas. Is that the main reason you feel they are not doing it adequately...?"

"Dr Foster: I believe that is part of the difficulty, Mr Chairman. However, some of them may feel that the urgency for that particular information is not so critical, and that they can rely to some extent on the research being provided by the Department of Defence." (Committee on Foreign Relations I, p 20).

In his testimony Dr Foster returns to this theme again and again: the Department of Defence would happily let other US governmental agencies sponsor the various projects so long as the Department's demands for information are met. Why, one may ask, were such happy arrangements not made long ago? The hints for an answer come from Craig Hosmer, "ranking House Republican member of the Joint Committee on Atomic Energy". Addressing US scientists a few weeks before the above hearings of the Committee on Foreign Relations, Hosmer noted that the US government's support for scientific research had declined during the Johnson years compared to the preceding decade although the share of the social sciences had risen rapidly. He said: "... (In the Government view) there seems to be a new emphasis on achieving national goals through R&D, and considerably less concern about the acquisition of knowledge for its own sake. Such concepts as world leadership in science are rather nebulous to the average citizen as compared with immediate social and political goals."

"What can the scientific community do about this? I believe it must go back to the equation $PE=PM$ — public esteem equals public money — and consciously rekindle some of the public's former affection for science. The scientific community should take greater pains to make clear that its efforts contribute directly and indirectly to the public good. Research priorities should be adjusted, whenever possible, to the public's priorities. The public should be reminded ceaselessly of scientists' vital contributions to national security. There is no function more appropriate for the federal government than that of providing for national defence..." (Italics mine, Hosmer 1968, p 1417).

It is clear, then, that the US public opinion exhibits an acute enough sense of insecurity that the US legislators allocate the lion's share of research funds to the Department of Defence.

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Scientists, including many social scientists, have learned well the rewards for doing the kinds of things that the Department of Defence would pay for. The recent probe by Horowitz (1968) into the intimate ties of an influential group of social scientists with the army and the government of the United States is thoroughly instructive.

XI

To sum up, during the past fifteen years North American social scientists have succeeded in persuading the Pentagon and other controllers of purse strings, that heavy investments in the social sciences — and in research abroad — will yield rich dividends. Early samples of the goods offered included the Area Handbooks, which summarised information (about several parts of Afro-Asia) of potential interest to the US Army, produced under the direction of renowned scholars at a series of distinguished seats of learning, under the overall charge of the Human Relations Area Files of Yale University. This was, in the mid-50s. Since then, as the evidence presented above has indicated, such ties have multiplied rapidly. Today, innumerable conduits are available for feeding such analyses to the manipulative organs of the United States government, and adequate numbers of social scientists stand ready to serve in the formulation and execution of state policy.

Appendix: An Explanatory Note

Working on this paper has not been without difficulty for me. It has required unfavourable comment on many institutions and groups whose members have shown almost limitless kindness to me personally. If any of them notice this paper, they would find it strange currency in repayment. While personal sentiments of cordiality between professional colleagues are important, the present context compels me to set them aside. In this paper I have submitted fully to the basic discipline of scholarship: scrupulous respect for facts along with the freedom of interpretation which is the essence of academic freedom. I accept responsibility for the viability of interpretations in this paper as I do in all my other work.

The exercise of the rights and duties of scholarship, nevertheless, must be tempered with a consideration of its likely effects upon the individuals concerned: that is why the frequent exclusion of state papers, personal diaries,

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etc, from the historian's scrutiny until the principal actors in the play have quit the stage is a necessary limitation on the scholar's right to pursue his inquiries in whatever direction his fancy takes him. Consequently, I have sought to cover the identities of both the persons discussed and my sources of information.

Events of the past four or five years, which I take to be common knowledge, have compelled me to give close attention to the results of social science research abroad from North American bases, particularly on how this finds its way to intelligence services and the armed forces of the United States. I am sure that those who claim the right to inquire into everyone else's affairs would permit a little scrutiny of their own operations. Someone else might wish to do a field inquiry in this area, interviewing North American academics, political and military leaders, and others: I have neither the time nor the money to undertake this. Instead I have relied in part on close to a decade of informal participant observation, though I admit that this has been in academic rather than in political and military contexts in North America.

This is a small piece of scholarship. I would like it to be judged by criteria appropriate for such work. But I fully realise that it may also have some effects which are political, using the word broadly. It is difficult to predict what shape these effects will take, but let me state my preferences. First, I oppose a blanket ban on all social science research by North Americans in, say, India: if the bureaucracy and the political leaders taste such power once, they could also use it to stifle freedom of inquiry even by those who live in the same political frame. Second, and more important, I hope that this paper will be only one of a series, previously begun, whereby Afro-Asian scholars scrutinise the work of their North American and other colleagues: its sponsorship, its conduct in the field, and the dominant lines of subsequent information flows.⁷ For too long we have assumed that they would discipline themselves. Third, and most important, we have to bend all our energies to the hard climb ahead in developing the social sciences in our own areas.

NOTES

- 1 This paper has benefited greatly from criticism by Kumari Jayawardena, Alex Gunasekera, Girja Kumar, and Amartya Sen, but the argument stands substantially as it

was in an earlier draft completed in July 1969. Niharajan Ray encouraged me to publish the study. Needless to say the responsibility for the present statement rests entirely with me.

- 2 See *Seminar* issue of December 1968, the bibliography therein, and the "Communications" in subsequent issues; Berreman, 1968, and the other papers and the discussion in that issue of *Current Anthropology*; Galtung, 1967; van den Berghe, 1967; Henry and Sabarwal, 1969, especially the Introduction; Beals, 1967; the list is a long one.
- 3 By North America I mean the United States and Canada. In some context I use North America and United States interchangeably. Having studied in the United States for four years and taught in two major Canadian Universities for three years, I find it possible to assert that the only relevant difference between the two countries is this: the United States has an aggressive international posture while Canada is industrialising itself and expanding its vast internal frontier. Where I use North America in this paper, a distinction between the two is unnecessary.
- 4 Also, what is "ethnography" when dealing with remote tribes and villages is likely to be branded malicious gossip when dealing with fellow professionals. I am aware of the possibility that the present essay might be put into the latter category by some.
- 5 Girja Kumar, Librarian, Indian School of International Studies, New Delhi, very kindly and very promptly sent me a list of citations to document this assertion: since I have neither the expertise nor the time to acquire the expertise in this area at the present time, my debt to him is great. The citations in the bibliography are marked with an asterisk.
- 6 The role of the US-based scholars, in the country of their origin, is also illustrated by an Indian social scientist located in a US University. While doing research in India in the mid-60s, he organised a conference of social scientists of which he, as convenor, became a co-Chairman. He told me that an overwhelming majority of the participants at the conference wanted to pass a resolution critical of North American social scientists. However, he used his prerogatives as Chairman to prevent the issue from reaching the floor. He told the conference that there was not enough time to discuss the matter, that he and his co-Chairman would prepare a statement reflecting the opinion of the conference and circulate it to the other participants, and with their approval it would become a statement from the conference. Until the time of our conversation, however, he had not prepared such a statement and had

no intention of doing so. Comment is unnecessary.

- 7 Specifically, Girja Kumar has suggested a close scrutiny of the Rand Corporation, Hudson Institute, Michigan State University, American Universities Field Staff and the Massachusetts Institute of Technology. Perhaps one of our American Studies departments will see the urgency and the importance of this research.

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 * Concerning the asterisked items, see explanation in note 5.

Exports of Engineering Goods Recent Boom and Its Causes

Dinesh Trehan

The rate of growth of engineering exports in the past two years has been very impressive and higher than the earlier rising trend would have led one to expect.

Since 1965-66, broadly three major developments have taken place: (i) devaluation in June 1966; (ii) recession since 1966 and (iii) the closure of the Suez Canal. This article makes an attempt to discover whether, and how, these three developments have affected the exports record of engineering goods.

DURING the past two years exports of engineering goods have grown at a very impressive rate. As can be seen from Table 1, exports increased from Rs 31.1 crores in 1966-67 to Rs 41.5 crores in 1967-68, i.e., by about 32 per cent, and to Rs 84 crores in 1968-69, i.e., by another 100 per cent. In fact, if we consider the statistics of engineering exports from 1956-57 to 1965-66, and fit second degree regression curve, given by the equation

$$Y = a_0 + a_1x + a_2x^2,$$

[The regression equation comes to $Y = 13.69 + 2.59x + 0.27x^2$ and $r^2 = 0.66$. 'r' is found to be significant both at 95 per cent level of significance and 99 per cent level of significance], and project the values for 1966-67 to 1968-69, we get the values shown in Table 2.

Normally, one would have expected engineering goods exports to be of the order of Rs 45 crores in 1968-69. Against this, the level achieved is Rs 84 crores. What are the factors contributing to this phenomenal increase in exports of engineering goods during the past few years? We find that, since 1965-66,

broadly three major developments have taken place: (1) devaluation in June 1966; (2) recession since 1966; and, (3) closure of the Suez Canal. An attempt is made below to find out whether, and how, these developments have affected exports of engineering goods.

I

Devaluation and Exports

One of the crucial determinants of exports is the price of the exported commodity. This price depends on the price of the commodity in the domestic market and on the rate of exchange. Thus if the price of the exported commodity has to be reduced, either (a) the cost of production must be reduced or (b) the rate of exchange must be reduced in terms of the foreign currency. Devaluation tries to improve the competitive position of exports by playing upon the rate of exchange. However, whether devaluation can improve export performance substantially depends upon the elasticity of foreign demand for our exports, the elasticity of domestic demand for imports, the elasticity of supply of exports in the domestic economy, and the elasticity of supply

of imports in the foreign countries. The precise relation is given by the inequality $(1 + dx + dm) \frac{dx \cdot dm}{sx \cdot sm} (1 + sm + sx)$. This shows that, if the elasticities of foreign demand for our exports (dx) and the domestic demand for imports (dm) are high enough, devaluation will achieve the objective. 'sx' and 'sm' here refer to the elasticity of supply of exports and imports respectively.

If these elasticities are favourable, devaluation will help in switching trade in the right direction, i.e., increasing exports. Whether this will yield considerable results will depend upon the capacity of the economy to increase production and/or generate surpluses to meet the increasing demand for the home commodities.

In the case of exports of non-traditional goods which consist, *inter alia*, of engineering goods, the elasticities of demand for exports are high. Of course, there is no systematic study available of the elasticity of foreign demand for exports for the individual non-tradi-

* Kindleberger, "International Economics", Appendix D.

TABLE 1: ENGINEERING EXPORTS
(Post Devaluation Rates)

Year	Value in Crores (approximately)
1956-57	5.4
1957-58	6.3
1958-59	6.2
1959-60	8.0
1960-61	10.6
1961-62	15.7
1962-63	15.4
1963-64	23.0
1964-65	26.5
1965-66	29.8
1966-67	31.1
1967-68	41.5
1968-69	84.0

Source: Engineering Export Promotion Council.

TABLE 2: EXPECTED AND ACTUAL VALUES
(Rs in crores)

Year	Expected Values Given by the Equation	Values of Exports Actually Achieved
1966-67	33.39	31.1
1967-68	38.95	41.5
1968-69	45.05	84.0

tional export goods in the different importing countries. Yet it can be intuitively seen that the LHS of inequality above is less than the RHS, in the case of engineering goods. Since manufactures have substitutes, demand for them is comparatively more elastic. Besides, India is only a marginal supplier of these goods to the world, so international prices of these goods are not expected to be affected by the devaluation of the rupee; what devaluation would do is to increase the competitiveness of these exports. The industry also had capacity to increase production substantially, without incurring much additional cost.

If we look at Table 1, we find that the exports of engineering goods increased from Rs 29.8 crores in 1965-66 to Rs 31.1 crores in 1966-67, i.e., by a little more than six per cent.

This increase contrasts with the overall decline in exports of the country, of about 11 per cent, during the same period. Yet this increase in engineering exports is not significant enough. In fact, if we look at the data obtained by fitting the second degree curve (Table 2) we get the figure of Rs 33.4 crores. This means that, even if there had been no devaluation, we could have expected nearly the same level of exports in 1966-67 as was achieved after devaluation.

What were the reasons inhibiting the expansion of exports of engineering

goods despite the favourable elasticities and the capacity of the sector to expand production? An answer can, perhaps, be sought in the fact that, immediately after devaluation, certain entitlements were withdrawn from the engineering goods section. Before devaluation, engineering goods were enjoying incentives of between 20 per cent and 75 per cent. After devaluation, it was perhaps assumed that the general incentive of 57.5 per cent (i.e., the amount by which the rupee was devalued), along with some liberalised measures would be enough to help the engineering industry stand on its own feet in the world market. While this approach helped that section of the industry which was receiving incentives of up to 50 per cent or less, it adversely affected the interests of the units which were receiving incentives of more than 50 per cent. In this latter group were some units. (*Monthly Commentary on Indian Economic Conditions*, July 1966) which were coming up significantly in the world markets. In fact, their exports had increased by about 33 per cent in the 11 months April 1965 to February 1966.

Table 3 presents a selective list of items of significance in exports, which enjoyed entitlements rates of 60 per cent and 75 per cent. It was a mistake to withdraw these entitlements because, in the mean time, the domestic market had also started to shrink.

As the phenomenon of recession became prominent, the mistake was realised. Gradually, many of the concessions were again made, and exports picked up. This is dealt with in the next section. The conclusion of this section is that the devaluation itself cannot be said to have much helped the cause of exports. This was because of the rapidly falling domestic demand and the simultaneous withdrawal of incentives. But since there was nevertheless an increase in the export of engineering goods, it may be held that, at least, the devaluation did not have a negative effect on exports of this sector. This may also mean that, with a little more alertness and foresight, better results might have been achieved. In fact they were achieved in some cases, as is seen.

II

Recession and Exports

Idle capacity has existed in the engineering industry for quite some time (see Table 4). (i) Could the recession have helped to boost exports and, if so, (ii) How?

The answer to the first question is

TABLE 3: IMPORT ENTITLEMENTS

Selected Engineering Goods Receiving 60 Per Cent Import Entitlement

- (1) Electric lamps GLS miniature and fluorescent
- (2) Dry batteries and components
- (3) Storage batteries
- (4) Radio receivers and components
- (5) Public address equipment
- (6) Typewriters
- (7) Transmission line towers made of mild steel
- (8) Gas plants
- (9) Mactear rotorvane continuous tea rollers

Selected Engineering Goods Receiving 75 Per Cent Import Entitlement

- (1) Ghamellas
- (2) Enamelware
- (3) Crown Cork
- (4) Razor blades
- (5) Airconditioning and refrigeration equipment including water coolers, humidification and ventilation equipment
- (6) Zip fasteners
- (7) Radio receivers and components
- (8) Steel wire gauge, mesh and nettings
- (9) Panel pins
- (10) Hacksaw and bandsaw blades
- (11) Umbrella ribs
- (12) Bicycle components and accessories
- (13) Pressure cookers
- (14) Dies, metal moulds and patterns
- (15) Electronic equipment
- (16) Electric meters
- (17) Hand tools
- (18) Automobiles
- (19) Motor cycles, scooters and three-wheelers
- (20) Air compressors
- (21) Trailers
- (22) Safety razors

Source: Monthly Commentary on Indian Economic Conditions, July 1966.

in the affirmative. Normally an industry which is running very efficiently and to full capacity, maybe supposed to have, *ceteris paribus*, better export performance because it is only this sort of industry which will be able to hold its own in international competition. On the other hand, an industry running inefficiently, may be expected to have poor export performance. But in the Indian engineering industry it is the latter group which has shown remarkable export performance in the last two years. This can be seen from Tables 4 and 5. For instance, in heavy steel structurals (Group A) the percentage of production to total installed capacity declined from 72.7 per cent to 23.5 per cent during 1965-67, i.e., by about 67 per cent. Again, in railway wagons, etc, production as percentage of capacity, declined from 60 per cent to 44 per cent, i.e., by about 27 per cent during 1965-67. Exports of these increased from Rs 87.27 lakhs to Rs 768.80 lakhs

TABLE 4: CAPACITY UTILISATION IN SELECTED ENGINEERING INDUSTRIES
— PRODUCTION AS PERCENTAGE OF CAPACITY

Industry/Product	Year		
	1965	1966	1967
(A) Acute cases of underutilisation of capacity i.e. below 50 per cent			
(1) Coated abrasives	72.2	46.8	48.8
(2) Railway wagons	60	57	44
(3) Heavy steel structurals	72.7	64.6	23.5
(4) Steel castings	67.4	49.0	44.3
(5) Copper and brass pipes and tubes	31.8	22.8	19.7
(6) Copper tubes (arrenal)	12.9	19.6	13.7
(7) Lead pipes and tubes	10.3	5.1	4.3
(8) Expanded metal	24.6	11.3	10.0
(9) Textile machinery	36.2	31.2	21.6
(10) Jute machinery (spinning frames)	64.3	38.1	14.3
(11) Wire ropes	58.9	61.2	39.1
(12) Hoist blocks	28.3	15.3	8.6
(13) Cranes, other than mobile	45.5	47.0	26.7
(B) Cases of substantial underutilisation of capacity, i.e. between 50 per cent and 75 per cent			
(1) Asbestos cement products	101.2	70.6	56.4
(2) Transmission towers	85.2	70.9	67.4
(3) M steel pipes and tubes	93.1	82.8	53.8
(4) Cast iron and spun pipes	87	83	51
(5) Road rollers	75.2	72.2	38.5
(6) Trailers	154.2	70.3	66.8
(7) Conduit pipes	75.7	86.0	57.4
(8) Arc welding electrodes	72.7	64.6	41.4
(9) Lathe tubes	85.4	68.1	59.3
(C) Cases of moderate underutilisation of capacity, i.e. between 75 per cent and 100 per cent			
(1) Grinding wheels	85.5	95.9	92.9
(2) Seamless tubes	55.8	71.3	78.2
(3) Zinc sheets and strips	91.8	94.3	97.5
(4) Lifts	109.4	131.2	75.0
(5) Ball and roller bearings	71.3	79.2	83.0
(6) Machine-tools	75.1	81.2	63.0
(7) Ship-building and repairs	87.1	98.8	98.0
(8) Cycles	91.7	99.5	102.6
(D) Cases of satisfactory utilisation of capacity, i.e. overutilisation of capacity			
(1) Diesel engines	119.0	140.2	151.4
(2) Power driven pumps	125.3	159.1	171.0
(3) Electric motors	125.6	146.1	146.4

Source: Engineering Export Promotion Council.

during 1966-69. Jute machinery production as percentage of capacity declined from 64.3 per cent to 14.3 per cent, and textile machinery from 36.2 per cent to 21.6 per cent. The total exports of these two items jointly increased from Rs 51.91 lakhs to Rs 180.66 lakhs, i.e. by about 250 per cent! Similarly, in Group B, in case of M/s steel pipes tubes, the ratio declined from 93.1 per cent to 53.8 per cent. Exports of this group have almost shown a 2½-fold increase from Rs 428.72 lakhs to Rs 10,69.32 lakhs. The same trend is confirmed in group C (lifts, etc).

This is not to say that in all these items, where production as percentage of total installed capacity declined, exports registered an increase. For instance, in the case of transmission towers, etc, the ratio declined from 85 per cent to 67 per cent during 1965-67, but exports also decreased

from Rs 125 lakhs to Rs 103 lakhs. Yet broadly, the earlier conclusion holds.

What could be the reason for such a paradoxical situation? Perhaps the recession itself. With the rapidly falling domestic demand, costs connected with excess capacity increased. It would seem that, to cut down these costs, efforts were made by the industry, to boost exports both directly and indirectly (i.e. by diversifying production). Government played its part. In order to encourage diversification, it decided to permit import of additional raw materials provided the diversified products were of priority industries. Import of minor balancing equipment was also allowed for diversification of production up to 25 per cent, and the grant of industrial licence was made automatic after the imports are cleared by the Central Government Committee. Further, with a

view to encouraging exploration of export markets, an Export Market Development Allowance to the tax payers (other than foreign companies) at the rate of one and one third of the revenue expenditure incurred for that purpose, was provided for. All this had its effect. Thus in the case of steel castings, production has been diversified and orders for larger castings are now accepted. Some manufacturers are reported to have produced castings upto 10 tonne-piece weights, and others are stated to have taken steps to manufacture some alloy steel castings for which they have got manufacturing facilities and technical knowhow. Similarly the wire-rope industry has diversified to produce steel wires, and the mining and coal machinery industry is diversifying production in allied fields such as conveying ore handling equipment and port equipment. There are many more such instances.

As a result of this diversification, the production base has expanded and a number of new items are being exported. To quote a few cases: In 1966-67 instruments worth Rs 4.16 lakhs, new types of machine-tools worth Rs 60 lakhs, and data processing machines worth Rs 40 lakhs were exported. In fact, in the field of heavy engineering and machine building industries, the commencement of production of different units in the HEC, Mining and Allied Machinery Corporation and of Heavy Electricals projects has now made it possible to offer a complete IMT capacity steel plant at home or abroad.

Again, to help boost exports directly, Government announced various concessions including drawback on excise and customs duties, provision of additional incentives by way of cash assistance and import replenishment. In many cases the steel was also supplied at international prices and there was reduction in the rail and ocean freight. Besides, individual industries were advised to conduct surveys of foreign markets, and consortia were formed to enable industries to tender for major projects and execute turn-key projects abroad. The structurals industry, HEC, and BIHEL, the cable industry etc, are some examples where such action has been, or is being, taken. And the action is apparently bearing fruit. For instance, the cable industry in a matter of only about four months has succeeded in winning export orders from Kuwait, alone, of about Rs four crores.

Here it may be mentioned that this diversification of production and the

TABLE 5: EXPORTS OF ENGINEERING GOODS, 1967-69
(in lakhs of rupees)

	1966-67 (April-March)	1967-68 (April-March)	1968-69 (April-March)
Group A: Acute underutilisation of Capacity, i.e. below 50 per cent			
(1) Railway wagons, etc	87.27	225.91	768.80
(2) Iron and steel castings	—	176.29	192.83
(3) Wire-ropes	62.90	67.13	92.80
(4) Jute and textile and knitting machinery	51.91	91.60	180.66
(5) Structural fabrications including PS tanks	28.67	44.56	95.15
(6) Hoisting and lifting machinery including cranes	—	27.98	48.32
(7) Expanded metal	0.40	0.25	0.18 (April-September)
Group B: Substantial underutilisation between 50 per cent and 75 per cent			
(1) MS pipes, tubes and fittings	428.72	491.16	1069.32
(2) Transmission line towers and poles	55.12	124.90	103.40
(3) Conduit pipes	0.36	0.02	0.74 (April-September)
(4) Trolley and trailers	2.20	0.94	1.64 (,,)
Group C: Cases of moderate underutilisation			
(1) Bicycle and parts	131.66	222.43	377.69
(2) Machine-tool and parts	—	169.37	185.90
(3) Ball and roller bearings	2.40	1.92	21.64
Group D: Cases of satisfactory utilisation			
(1) Diesel engines	122.32	125.52	206.80
(2) Electric motors and switchgears, transformers, etc	25.63	27.98	114.16

TABLE 6: INCIDENCE OF FREIGHT ON CERTAIN ITEMS IN INDIA'S EXPORT TRADE

Commodity	Destination	Freight as Per Cent of f o b Value
Auto-transformer	Australia	54
Buckets, watering cans, water tanks, drums and dustbins	West Indies, West Africa, Libya and Ethiopia	40
Wheel discs, autosahm generators, ignition equipment for automobiles	Saigon, Bangkok, Singapore, Manila	40 to 50
Bicycle tyres	Bombay to Bangkok	26
Steel furniture	Valleta/Malta	100 of cif
Steel safes	Persian Gulf, East Africa and Thailand	16 to 30

Source: "Ocean Freight Rates and India's Exports", Institute of Foreign Trade.

urge, followed by positive action like formation of consortia, survey of markets, etc, to increase exports, may have occurred even in the absence of the recession. But the recession brought home the urgency for doing so, and provided that little additional urge and incentive necessary, both to the private industrialists and Government, to achieve the breakthrough.

III

Suez Closure and Exports

The significance of the Suez closure, which happened in June 1967, on our exports arises from the fact that freight

rates play an important part in the export efforts of a country. This is because they constitute a significant percentage of the cost of the exported commodity. To quote the findings of a study by the Indian Institute of Foreign Trade: (Indian Institute of Foreign Trade, "Ocean Freight Rates and India's Exports").

"The conventional belief that freight constitutes only about 10 per cent of the f o b value of exports does not seem to hold good with regard to these (non-traditional) items. As a matter of fact, the freight incidence is much higher, and in a few cases,

incredible as it may seem, it even exceeds the f o b value of exports. Our competitors in the overseas markets pay comparatively lower freight on these items and so acquire a decisive competitive edge over the Indian exporter. This poses a major problem in relation to the export effort of the country".

In this connection Table 6 may be seen. The freight rate varies from 16 per cent to 100 per cent on a few commodities taken here.

So the closure of the Suez assumes significance. For instance, the distance to the UK and other West European countries is now 11,000 miles instead of the 6,000 miles via the Suez. To the US the distance is 14,000 miles instead of 11,000 miles. Similarly from the UK to Japan, the distance via Suez is about 11,100 miles, but via the Cape it is 14,400. This difference of 3,000 miles lengthens the voyage of a modern tramp ship by 9 to 10 days and the extra cost to the owner is £ 7,000 in terms of fuel, daily running expenses, and lost profit. It has been estimated at £ 40,000 for a modern passenger ship ('Cost of Closure' by Helmsman in *Far Eastern Economic Review*, August 13, 1967).

It must be noted, of course, that distance is not the sole determinant of freight rates. These rates depend, besides distance, upon the structure, composition and volume of trade in both directions, the number of ports of call, conditions of the route and ports, the extent of non-conference competition, etc. But given these different factors, distance becomes an important determinant of freights.

Further, no precise figures are available on the impact of the closure of the Suez on Indian exports (*Hindustan Times*, May 26, 1969). Yet a few general remarks can be made in this regard.

First, due to this closure, India should have a comparative advantage in the export of engineering goods to countries east of Suez such as Saudi Arabia, New Zealand, East Africa (Ethiopia, Sudan, Congo, etc) Indonesia, Ceylon, Burma, South-East Asia, Iran, Nepal, etc. Its competitive strength in these markets *cis-a-vis* certain developed countries like the US, USSR, European countries, etc, has improved. Thus, because of the closure of the Canal, all the exports of the Soviet Union have to be diverted via the Cape of Good Hope. To cover the cost of this additional distance, the Soviet Union has levied freight surcharges, which are 30 per cent in the case of India. Similarly, the US and some West European

TABLE 7: COUNTRY-WISE EXPORTS OF ENGINEERING GOODS

Countries	(In lakhs of rupees)		
	1966-67 (April-March)	1967-68 (April-March)	1968-69 (April-March)
S-E Asia			
Burma	51.56	119.43	201.41
Cambodia	0.42	4.24	12.94
Ceylon	114.16	137.78	406.92
Formosa	7.54	2.42	5.28
Japan	19.15	5.83	137.48
South Korea	0.89	neg	606.86
Thailand	47.19	144.91	184.59
Singapore	—	164.21	141.20
Others	241.51	486.77	765.27
Total	690.42	1065.84	2461.85
West Asia			
Iran	209.12	337.67	822.70
Iraq	88.43	78.34	232.58
Jordan	2.31	2.85	6.16
Kuwait	167.83	199.95	636.69
Lebanon	6.99	5.19	213.78
Turkey	3.62	2.76	0.67
Others	151.70	246.46	718.39
Total	630.00	873.02	2230.97
Africa			
Congo	0.06	0.16	—
Egypt	91.49	107.00	470.33
Ethiopia	24.76	15.15	50.48
Kenya	203.91	168.72	430.71
Libya	9.05	15.27	27.95
Nigeria	127.39	154.05	112.08
Others	130.57	258.73	511.63
Total	587.23	719.08	1603.16
Europe			
Austria	0.33	1.12	0.62
Belgium	5.41	4.15	4.37
Bulgaria	10.98	71.46	40.24
France	15.34	14.44	21.38
East Germany	61.69	80.20	195.66
West Germany	24.26	40.57	74.58
UK	167.13	137.32	196.37
USSR	50.84	70.10	97.34
Yugoslavia	64.16	51.23	208.69
Others	141.72	509.91	489.15
Total	541.86	979.90	1311.40
South America			
Argentina	—	1.67	0.01
Brazil	33.06	25.51	3.01
Others	02.14	3.71	1.34
Total	35.20	30.89	4.36
Australia			
Australia	32.28	121.51	182.94
New Zealand	11.37	19.94	156.32
Total	43.65	141.45	339.26
West Indies			
British Guiana	3.67	4.48	2.92
Trinidad	2.38	2.77	1.40
Jamaica	4.35	1.81	1.96
Others	0.69	2.01	0.47
Total	11.09	11.07	6.75
North and Central America			
Canada	26.07	41.14	113.41
USA	202.97	253.97	363.32
Others	9.61	1.64	17.48
Total	229.65	296.75	494.21

countries have levied surcharges at the rate of 15 per cent. and certain East European countries at 30 per cent to 35 per cent.

Secondly, because of these surcharges, imports into India would also be costlier. It is estimated (*Economic Times*, June 27, 1967) that the increase in import costs would be about two per cent. This may be a disincentive for export, as it would increase the ex-

port price. But it is not likely to prove a serious difficulty because all countries will face this problem.

Thirdly, because of the closure of Suez, import of essential raw materials and implements, etc., would be delayed. This could adversely affect production and hence exports. But to circumvent this difficulty Government has already taken certain steps. It has been decided to forgo the stipulation regard-

ing the utilisation of the previous set of licences before applying for a fresh licence. Actual users have also been permitted to apply for fresh licences for the import of raw materials, components, and spares after the old licences have been utilised to the extent of 70 per cent.

Finally, Indian exports to the countries west of Suez, e.g., to Europe, the US, etc., will be costlier. This means that these exports will have to compete now with the products of these developed countries with the additional disadvantage of increased freights. India supplies special types of engineering goods to some of these developed countries, which are mostly complementary and non-competitive with the products of these developed countries. Thus to the US we supply commodities which are less sophisticated. In such cases, even increased freight rates may not prove disadvantageous. But where we compete with other advanced countries, the pinch of higher freights would be felt.

Consequently, as a result of the closure of the Suez Canal, India is likely to have an exports advantage in countries which are east of Suez in respect of all engineering goods, and to have a disadvantage in countries west of Suez in respect of some commodities. It is felt that the advantage east of Suez may outweigh the disadvantage west of Suez — for two reasons. First, east of Suez constitutes about 64 per cent of India's total exports of engineering goods. Secondly, of the remaining 36 per cent exports, which go to the countries west of Suez, there is again a small percentage which constitute complementary and not competitive exports.

As will be observed in Table 7, exports in 1968-69 itself, have exceeded exports in either 1966-67 or 1967-68 in regions which are to the east of Suez. Thus in South-East Asia, exports have increased from Rs 690.42 lakhs in 1966-67 to Rs 1065.89 lakhs in 1967-68, and to Rs 2461.81 lakhs in 1968-69; in West Asia, from Rs 630 lakhs in 1966-67 to Rs 873 lakhs in 1967-68, and Rs 2230.93 lakhs in 1968-69; in Australia, from Rs 43.45 lakhs in 1966-67 to Rs 141.45 lakhs in 1967-68 and Rs 339.26 lakhs in 1968-69. It can also be seen from Table 7 that the rate of growth of exports in countries to the west of Suez is not as fast as in countries to the east of Suez. Whatever increase in total exports has been achieved in the European countries, Canada, and US, has been mainly by way of increase in small and hand tools, screws, and cut-

lery to the US and aluminium ingots to Canada and Europe. Exports to Europe have increased from Rs 541.86 lakhs in 1966-67 to Rs 1311.40 lakhs in 1968-69, i.e., by almost two and half times—despite the Suez closure and the handicap in competitiveness because of the increased freight charges.

But this is an aggregative approach. Exports have been stagnant to almost all European countries, and the additional increase has been because of the enhanced exports to mainly four countries, viz, East Germany, Yugoslavia, West Germany and USSR. In the case of East Germany and Yugoslavia, exports have expanded because of the additional exports of the aluminium ingots. In East Germany the value of exports of aluminium ingots increased from Rs 0.01 lakhs to Rs 147.23 lakhs, while total exports in 1966-67 increased by Rs 134 lakhs only. This means that exports of other engineering goods have actually declined. In Yugoslavia, where the total exports have increased by about Rs 144 lakhs during 1966-69 the total increase in the exports of aluminium ingots is Rs 138 lakhs. Similarly in Canada, the entire increase of Rs 70 lakhs of exports between 1967 and 1969 is due to the increase in exports of aluminium ingots. In the case of USSR and West Germany the increase is mostly explained by the increase in

the exports of small tools and hand tools and automobile and auto parts (the latter being in the case of West Germany only).

Now aluminium ingots are only a raw material. Thus what we have really been able to increase by way of export to Europe is either raw materials or complementary machines, etc., and not any new items or sophisticated machines.

On the other hand our exports to countries east of Suez have been of a different kind. In this region either new items have been exported during this period or items like machine-tools, railway wagons, MS pipes and tubes, etc., have found new markets. Besides almost all the commodities exported earlier have shown an upward trend.

Thus with the Suez closure exports have really increased to the region east of Suez, while whatever increase has occurred west of Suez has been either of complementary goods or in the nature of raw materials—an increase not of much significance for the long run. As the production of manufactures increases in our economy, exports of these complementary goods and raw materials will fall, as has happened in the case of rollers and ball bearings. Thus there has not been, since the Suez closure, any 'real' increase in export of engineering goods to west of

IV

Conclusion

Of the three factors studied above, it may be said that devaluation in itself does not seem to have had any negative effect on engineering exports, while the recession and the Suez Canal closure seem to have had a definite positive effect on such exports. The fact that devaluation did not have any negative effect on these exports means that it might have actually contributed to increase in such exports, if some of the measures which were taken in 1967-68, when the problem of the recession arose, had been taken along with the devaluation measure in June 1966. Viewed thus, one may infer that the recent boom in these exports is a function of all three, viz, devaluation, recession, and closure of the Suez Canal.

Local Government Framework and Metropolitan Planning

Ardhendu Bhattacharya

The structure of local self-government is a product of British administration. The municipal governments in the Greater Calcutta region grew up originally around jute mill settlements. In spite of profound sociological and economic changes this municipal structure has remained largely static.

One answer to the inadequacies of the present system may be through the development of a true metropolitan government. But this too has its special problems. The question, therefore, is how to make local government in a metropolitan set-up more purposeful.

The Basic Development Plan for the Calcutta Metropolitan District has sought to formulate an answer within this framework.

THE existence of multiple levels of government functioning within a compact urban belt is commonly observed in almost all the metropolitan centres in the country. The structure of local government in the Calcutta Metropolitan District (CMD) may be cited as a case of extreme fragmented governmental responsibility. The structure in CMD has assumed three general categories:

- 1) the Districts which are the primary units of general administration by the State Government at the local level;
- 2) the Corporations, Municipalities,

a Cantonment Board and a Notified Area Authority, which are the units of local government for the urban areas. There are in all 35 such bodies functioning now; and the Zilla Parishads and a variety of Panchayats which form the structure of self-government for the extensive rural areas of CMD.

This structure of local self-government is a product of British administration. The municipal governments in the Greater Calcutta region grew up originally around the jute mill settlements to provide at least the minimum public

amenities in hygiene, water supply, conservancy, garbage disposal and to regulate the establishment of markets. Over the years the scattered jute mill areas expanded in population and their chaotic, shabby housing and commercial areas tended to form a continuous urban belt and also merged inextricably with the twin cities of Calcutta and Howrah to form a single metropolitan complex. In spite of profound changes in population size and composition, physical environment, industrial diversification and technological change, the municipal structure has remained large-

ly static both in its territorial jurisdictions and functions. Each fragmented unit in such a local set-up performs some services and does some financing of all major functions in differing degrees. However, there are marked differences in the provision of services between the local bodies. Individually, their capacity to realise efficient solutions to their local problems is strictly limited mainly because of inadequate revenues, small tax base, small population, poor administration and failure to achieve economies of scale over a wide range of functions.

In the Calcutta Metropolitan District, covering about 420 sq miles, there are wide disparities in the territorial jurisdictions of the 35 municipal bodies operating in the urban sphere. Fifteen municipal bodies cover areas of three square miles or less, fourteen cover areas ranging between three to six square miles, three municipal bodies cover six to ten sq miles and only three extend over more than ten sq miles. Similar variations in population size have also been observed. Thirteen municipal areas have a population of less than 40,000, fourteen claimed to have populations ranging between 40,000 and 1,00,000, five municipal areas contain between 1,00,000 and 1,50,000 persons and only three have populations exceeding 1,50,000. "This medley of urban self-governments in the CMD is composed of units which vary greatly in size but which in general share the common characteristics of inadequate tax resources, irrational areas of jurisdiction, low standards of service and a governmental and administrative machinery that has failed to grow with the times and adapt to the changing and developing needs of the complex urban agglomeration that is Metropolitan Calcutta to-day."¹

DRAWBACKS OF FRAGMENTATION

A pattern of fragmented local government is generally poorly designed to deal with local responsibilities. The major drawbacks of a fragmented system are as follows:

a) The existing municipal bodies are financially weak and therefore lack the resources to meet their responsibilities particularly with respect to capital development programmes like water supply, drainage, health, hospital and transportation services, sewage and garbage disposal, air and water pollution control, slum clearance, educational and recreational facilities. The revenue in the majority of cases is strictly limited by their population and territorial

jurisdictions. Moreover, the functional service areas do not coincide with the areas of tax jurisdiction for the support of such services. In the Calcutta Metropolitan Region as many as 29 municipal bodies collected per capita tax of Rs 5 or less in 1963-64. In the case of Calcutta Corporation, the per capita tax collected was Rs 20 in the same year. Howrah Corporation collected Rs 14 per capita in taxation in 1963-64. The existence of disparities together with the absence of any effective State assistance is probably one of the major reasons why the majority of municipal bodies fail to maintain even the present facilities in their territory.²

Moreover, intrametropolitan tax disparities may have effects on the location of activity. Adverse tax influences are a critical factor in local tax-policy decision making. These competitive fears often restrain the increase in local taxes. Very often new or enhanced taxes are vehemently opposed by local councillors on political grounds. Fragmented units also find it difficult to raise market loans.

b) Fragmented government functioning is often objected to on the ground that the system fails to achieve the economies of scale over a wide range of functions, viz, water supply, power supply, sewerage, drainage, mass transportation, housing, etc, with the utilisation of modern technology in many spheres of civic services and amenities, economies of scale in operations require the organisation and construction of unified and integrated plants and services to take full advantage of the overhead capital facilities created.

c) The extreme fragmentation of responsibility for administration and development makes inter-agency co-ordination very difficult to achieve. Generally, decisions or proposals at one level of government will affect the decisions of each of the others. It is, therefore, important to review and co-ordinate plans and programmes proposed by local units from a comprehensive view of total regional conditions and interests.

d) One of the virtues claimed for urban Government consolidation relates to the improved conditions for co-ordinated and orderly planning for growth. The preparation of a plan, enforcement of a plan and its execution depends on the existence of a suitable organisational framework. The forging of planning and execution activities in a single authority would be able to achieve practical expediency, quick ex-

ecution and a better co-ordination and timing in the execution of plan proposals.

One approach might be through the development of true metropolitan government. By 'metropolitan government' in this context is meant some sort of governmental entity which performs a variety of services over all or a large portion of a metropolitan area — a general purpose agency with full governmental character. Metropolitan government in this sense simply does not exist in this country. Though the idea looks novel, it has encountered sharp criticisms. Hirsch, one of the noted critics, has refuted the advantages of governmental consolidation.³ Some of the major points against consolidation raised are as follows: Hirsch feels that most government services require relatively close geographic proximity of service units to service recipients, so that the service functions can be tailored to consumer choice. This will prevent the establishment of huge schools, fire services, police stations, libraries, recreational facilities. It is also felt that since the urban government services are labour intensive, the concentration of manpower can increase the bargaining power of labour and this, in turn, increase the costs. He also foresees the chances of political patronage in large government bodies. Furthermore, large government bodies may fail to communicate intensions and procedures, establish a harmonious system of incentives and achieve adequate cohesion among individuals and sub-units. Moreover, a large organisation finds it hard to anticipate, to recognise or adjust to change (may be environmental). It may also neglect the variety of choices open to it and pressure may operate to simply get some decisions made. He also feels that inter unit differences in fiscal resources may easily be bridged by appropriate state subsidies which may not, therefore, require a change in government structure. Some of these points are quite relevant in defence of the retention of local government. The issue, therefore, arises of how to make local government in a metropolitan set-up more effective and purposeful.

SUGGESTED SYNTHESIS

The criticisms, however, do not invalidate consolidation in selective urban functions which are heavily capital intensive and require extensive and integrated physical facilities. With the utilisation of modern technology in many functional fields, economies of

scale of operations dictate the construction of unified and integrated plants and operations and the organisation of large service areas to take advantage of capital overheads. Modern facilities such as filtered and safe water supply, power supply, sewerage and drainage, traffic and transportation, housing services, air and water pollution control are essentially 'metropolitan functions' requiring sizeable mobilisation of financial and organisation resources and enforcement of suitable user charges. "This basic principle has now gained world-wide recognition, and acceptance. It was most recently expressed in a thorough fashion in the reorganisation of metropolitan and local government in Greater London. It has also long been given extensive recognition in the reorganisation of metropolitan government in the USA, Canada, Australia and many other countries which have faced similar problems accompanying the growth of large centres. The acceptance of such a principle does not signify a departure from fundamental agreement on the strength and merit of local government. Its adoption is based, rather, on the recognition of the technical and administrative advantages of organising certain services and facilities on an area wide basis".⁴

Urban government consolidation over wide areas for services other than the core 'metropolitan functions' as mentioned above may not be sufficiently justified. In that event the discussion would revolve around the selection of optimum size of local government that should emerge in the present-day metropolitan set-up. There is much sense in adopting the optimum size as prescribed by the Royal Commission on Local Government in Greater London, as quoted by Hirsch. The optimum size would be a minimum of 1,00,000 inhabitants and a maximum of about 2,50,000 which may therefore necessitate amalgamation of smaller local bodies into larger local governments. Consolidation into larger municipal governments with financial and territorial adequacies may lead to proper provision of satisfactory standards of services and facilities. The state can appropriately respond which may include among other things fiscal assistance to urban governments. The system would also ensure local governments to adapt themselves organisationally and procedurally to serve their own people and also encourage greater responsiveness to the demands of the people.

The Basic Development Plan for the Calcutta Metropolitan District has emphasised the vital role of local governments in efficiently providing a wide range of governmental functions. However, it is recognised that "radical changes are required to reform, strengthen and revitalise the structure of local self-government in the CMD. There is little doubt that the situation would be greatly improved if the total number of local government units could be substantially reduced through the twin processes of annexation and consolidation."⁵ This was expected to ensure the territorial and financial adequacy necessary for the provision of services and facilities. Leaving aside the cantonment area and the existing corporations "it should be possible to regroup the other municipal bodies in the CMD to form six to nine municipal corporations with populations ranging from 1,00,000 to 5,00,000 each, within suitable territorial jurisdictions".⁶ The Plan clearly recommends that certain services which are essentially 'metropolitan functions' should be planned and operated on a metropolitan wide basis. It thus suggests setting up of a number of authorities in the fields of Water and Sanitation, Traffic and Transportation, Parks and Recreation, Housing and Hooghly River-Bridge Construction. The water and sanitation authority has already come into existence. For the maintenance of a systematic and co-ordinated direction of development, the Basic Development Plan for the Calcutta region suggested the creation of a high-powered Regional Planning Agency with statutory powers and responsibilities. It is expected that such an agency at a higher level, should provide, within

the context of a State Development Plan, the overall development framework within which plans of the local bodies and functional authorities are fitted in a co-ordinated manner.

The vital role of a Regional Planning Agency has also found expression in the Report of The Committee for Regional Plans for Bombay and Poona.⁷ The operation of local governments and development authorities which look to individual facets of regional development should be conceived, according to the Report, "as part of a total and co-ordinated programme and therefore made subservient to the proposals in the regional plan . . . that the regional plan should have an overriding effect over all development proposals of whatever authority. The regional planning and development authority should for this purpose be vested with powers of giving directions or making inspections and corrections in the development permissions granted or to be granted by various local authorities".

NOTES

- 1 "Basic Development, Calcutta Metropolitan District 1966-86", Calcutta Metropolitan Planning Organisation: p 35.
 - 2 *Ibid*, p 37.
 - 3 Refer his article 'The Supply of Public Services' in 'Issues in Urban Economics', edited by Harvey Parloff and Lowdon Wingo (Johns Hopkins).
 - 4 "Basic Development Plan, CMD, 1966-1986", p 125.
 - 5 *Ibid*, p 129.
 - 6 *Ibid*, p 130.
 - 7 "Report of the Committee For Regional Plans for Bombay-Panvel and Poona Regions", Part IV, pp 133-134.
- [The author is indebted to J C Sandara for his helpful comments.]

Gokak Mills

GOKAK Mills witnessed little change in its financial results for 1969, with turnover slightly better at Rs 746 lakhs (Rs 737 lakhs) and gross profit a little lower at Rs 82 lakhs (Rs 84 lakhs). The small contraction of margins was ascribed to a 35-day-long strike and increase in wage bill. Net profit was Rs 35 lakhs (Rs 39 lakhs) to cover the 15 per cent equity distribution, inclusive of 3 per cent by way of bonus, on capital increased by a one-for-nine bonus issue 1.8 times. Return on total funds employed in business worked out at 9.1 per cent. A new programme for modernisation and expansion of the mills has been drawn up and expenditure of Rs 30 lakhs is envisaged

on new machinery and buildings in the current year. A dispute concerning dearness allowance has been under adjudication for several years. An out of court settlement has been arrived at with two unions which command support of overwhelming majority of workers in regard to this dispute. The company has agreed to a higher rate of dearness allowance to be paid retrospectively from January 1967. Many cases in regard to bonus disputes still remain to be decided. F H Kemple, chairman, says that for all the years in question payments have already been made to workers in accordance with the Payment of Bonus Act and that no additional payments are due.

MARKETS

Some Belligerence, Much Sense

Nishtar

STATE monopoly in cotton being almost a *fait accompli*, the chairman of the Indian Cotton Mills' Federation, Radhakrishna Ruia, has appealed to Government to arrange matters in such a manner that the expertise developed by the trade by hard work and experience of generations is allowed full play and is properly harnessed while canalising imports through a state agency. Government's proposed scheme does envisage such association and if Government were to change its mind now, Radhakrishna will have only his young brother Madanmohan — the East India Cotton Association president — to blame because it is he who has threatened that "if any importing firms join hands with the Government we will make life hell for them. We will see that the trading community ostracises them." Such a belligerent attitude may befit a politician but it ill becomes a responsible spokesman of the trading community. One can appreciate the angry feelings of the trade which faces the prospect of massive unemployment in the event of a take-over of internal trade. Since canalisation of imports might well prove to be a prelude to complete nationalisation of cotton business, it is natural that the trade should strongly oppose this move. But its attitude of open hostility might harm the cause it seeks to promote.

There is really no rationale behind the suggested move for the take-over of internal trade. As very rightly pointed out by the ICMF chairman, marketing of cotton is a specialist's job calling for intimate knowledge of the several varieties of staples grown in the country, their relative importance in a given situation, as well as the freedom to take quick, on-the-spot decisions. In any case, it would be unwise to proceed with plans for the take-over of internal trade until Government has made a complete success of the relatively simple business of cotton imports to which it is firmly committed.

Ruia has expressed the fear that the state take-over will not only result in higher cost of marketing but that even production is likely to suffer for the reason that it will pay the farmer more to work on the political plane and pressurise the state agency to pay more

for his produce than to work on the farm. This can prove disastrous because increased production is the need of the hour. The country has had to pay very dearly for neglecting cotton production, both by way of huge annual expenditure of precious foreign exchange and high cotton prices which have seriously undermined the industry's competitive position in international markets.

With the cotton crop over the past five years averaging around 58 lakh bales, there can be little hope of achieving the Fourth Plan target of 80 lakh bales for 1973-74 unless some drastic revision is made in the methods that have been adopted for increasing the per acre yield of cotton. The Fourth Plan has allotted only about Rs 16 crores for cotton development which is a disappointingly low investment. The ICMF chairman says that if only Government had spent even 10 per cent of what it spends every year on the purchase of foreign cotton, the country would have moved much nearer the goal of self-sufficiency. But one might ask Ruia whether the industry itself could not have raised much larger resources on its own to finance its much publicised cotton development projects, especially when such investment has proved to be quite rewarding: the per acre yields are said to have improved, on an average, by 50 per cent and in some places by as much as 100 per cent.

According to Ruia, the average expenditure on industry's cotton development projects amounts to Rs 20 per acre whereas it is only Rs 4 for Government projects. Such inadequate expenditure per acre is almost a total waste. Government will do well to heed Ruia's suggestion that if it cannot step up its expenditure on cotton projects to the extent needed, it can at least reduce its area of operation, so that, with the amount of sanctioned money, assured results may be obtained in the area covered. Ruia's plea for associating the Federation's representatives with the working of Government's project also merits serious consideration.

Yet another important point made by the ICMF chief relates to crop estimates. The current season has less than two months to go but "even now, no-

body really knows what the size of the crop is" and the situation is said to have been complicated by an unusually large proportion of light-weight bales. That it should be so is really shocking. The need for setting up a suitable agency for reporting on the progress of the crop and furnishing fairly reliable crop estimates can scarcely be exaggerated. This should go a long way in imparting stability to the market by avoiding fluctuations caused by uninformed guesses about the size of the crop. It should not be very difficult for the various regional associations of millowners to set up a machinery for preparing crop estimates in their respective areas. It is essentially a question of the right approach rather than finance.

Marketwise, there is very little to report. Prices have continued to hold firm despite the fairly satisfactory progress of monsoon in the cotton growing tracts.

Different Look

THE oilseeds market presented an altogether different look last week. Bulls who had staged a retreat under the spell of monsoon mounted a fresh offensive and bears were once again on the run. Prices rebounded sharply and moved fairly close to their season's best levels. Oil prices recovered by Rs 100 to Rs 200 per tonne, with groundnut oil ready moving up from Rs 5,050 to Rs 5,225, linseed oil from Rs 3,750 to Rs 3,950 and castor oil (commercial) from Rs 3,025 to Rs 3,125. The recovery was even more impressive in futures; castor September shot up from Rs 133.37 to Rs 143.37 and linseed July from Rs 171 to Rs 180 (per quintal). The rise was due both to renewed bull support and nervous short covering.

The sudden change in the mood of the market had nothing to do with the weather. The progress of monsoon has been satisfactory though some parts of Saurashtra — the major groundnut producing tract in Gujarat — still need rains for commencement of sowing operations. It was the marked revival of inquiry for the spot material which encouraged bulls to reassert their position. Soap and paint manufacturers were reported to be keen buyers of linseed oil which is also being used for adulteration with other higher priced edible oils. Castor oil was sought by exporters on prospects of further business

with Russia. Bullish sentiment was also aided by highly encouraging reports of export business in groundnut extractions and linseed extractions. Never before have groundnut extractions been known to have fetched such attractive prices as they have done over the past week or two.

The initial impact of good monsoon having worn off, the market's attention has again turned towards the tight supply position of vegetable oils. The lean period is still ahead and prospects of additional substantial supplies of soyabean oil and mutton tallow in the near future are no longer rated high. If the market could repeat last week's performance it will have struck new highs for the season. Whether it will do so or not is anybody's guess. A good deal will perhaps depend on the progress of monsoon and it is futile to speculate on the weather. Certainly, one would not like to entertain unkind thoughts about the weather.

Marking Time

THE stock market made no serious attempt to push its way up to new high ground; nor did it beat a major retreat. The corporate news was plentiful and pleasing and reports that the World Bank had agreed to study the question of giving relief to India in loan repayment falling due from next year also created a good impression. But the market preferred to mark time and moved up' and down in a leisurely fashion. Except for a few select counters which scored good gains on special considerations, net changes over the week were quite small and plus and minus signs were almost evenly spread out.

The market's overall behaviour seemed to suggest that having travelled a long distance without any important pause it had called a halt to its bull campaign in order to rest its weary limbs. Of course, one cannot come to any firm conclusions on the basis of price movements in a thin market where even small buying can produce disproportionately large fluctuations and one week is, in any case, too short a period to pass judgment.

It is significant that the stock market which is known to get into jitters even on minor provocations has kept remarkably calm amidst the sweeping changes in portfolios in the biggest-ever Cabinet reshuffle. This is perhaps a measure of the immunity that the market has developed to changes in the political weather. Indeed, it has learnt

to live with political tensions. How else could Lyons Range have kept pace with the other stock markets?

The taking-over of the Finance portfolio by Chavan, who is fully committed to the implementation of the Party's radical economic programme, has not caused any uneasiness in stock exchange and business circles. The stock exchange fraternity is fully reconciled to the view that New Delhi's democratic socialism provides ample scope for private enterprise. Business community has reacted favourably to Chavan's new assignment on the argu-

COMPANIES

Golden Trophy, but No More

Hansavivek

RAYMOND WOOLLEN was awarded a golden trophy by the Union Government for "outstanding export performance". Its share now runs at about 65 per cent of the country's total exports of woollen fabrics and 90 per cent of engineers' steel files. In the case of woollen fabrics, the company has come to the conclusion that exports of more than 40 per cent of its output would adversely affect profitability. At the present level of its operations, running three shifts for 365 days in a year, it finds it "impossible" to increase exports or the physical volume of output. Owing to the growing demand for its products in world markets, Raymond applied over a year ago for expansion of capacity on the basis that not only would it continue to maintain the same percentage of exports on the increased output but would also be able to earn all of the foreign exchange required for import of machinery in "just one full year". But its application has not yet been sanctioned, although Government's declared policy is to permit expansion of export-oriented units. What stands in its way is the ban on further expansion of woollen industry, imposed on the ground that there is a large unutilised capacity in the country. Gopalkrishna Singhania, chairman, pleads that if export is the mainstay of the country's economy, expansion of capacity as a means towards further exports may be allowed on a selective basis. He argues that under-utilisation of capacity in units catering only to the home market, and who are either not in a position to

export or are not willing to export, should not be a drag on the exporting units.

During 1969, Raymond's exports of woollen goods increased from Rs 86 lakhs to Rs 93 lakhs. Moreover, it entered into a new line of export of readymade trousers, a non-traditional item, to the extent of over Rs one lakh. There is vast scope for exports of readymades, particularly to Scandinavian countries, and the company has received large orders. Exports of steel files increased from Rs 29 lakhs to Rs 31 lakhs. A second modernisation scheme, estimated to cost Rs 2.25 crores, has been undertaken for the woollen mills and wool combing divisions. An import licence has been obtained for 40 new automatic weaving machines, of which 20 have been received and installed. Orders have also been placed for five new worsted ring spinning frames of indigenous make which are expected to be received soon. A fresh term loan of Rs 100 lakhs has been obtained from bankers to finance part of the cost of the scheme.

During 1969, Raymond's total income increased from Rs 878 lakhs to Rs 955 lakhs and, despite increase in costs, gross profit was up from Rs 64 lakhs to Rs 90 lakhs. Net profit was Rs 36 lakhs (Rs 27 lakhs), to cover the unchanged 12 per cent equity distribution 2.8 times and to give a return of 5.3 per cent on total funds employed in business. It is proposed to issue bonus shares on a one-for-five basis. Among the subsidiaries,

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the Kenya unit commenced regular production in the earlier part of 1969 and its products have been well received in the East African markets. J K Helene Curtis showed further improvement in sales and profits and has planned a higher level of operations in the current year.

SASSOON AND ALLIANCE SILK'S auditors, A F Ferguson and Company and S B Billimoria and Company, observed in their report for 1969 that the company had acted on the advice of counsel that, provisions of Section 309 requiring the special or ordinary resolution of the shareholders and gov-

ernment's approval and the provisions of Section 314 requiring the special resolution of the shareholders, did not apply to guarantee commissions paid to some of the directors who were not in the wholtime employment. They added that, according to a government circular dated December 16 last, the provisions of Section 309 and presumably also Section 314 applied to guarantee commissions. The guarantee commissions paid to directors from January 19, 1966, to December 31, 1969, amounted to Rs 1,73,947 (including Rs 51,459 for the year) which would become refundable if it was held that these sections had been con-

travened. Both these auditors declined to stand for reappointment at the annual meeting and, in their place, S R Parekh and Company has been appointed. During its 87th year, ended December 1969, the company's sales and process charges were down from Rs 195 lakhs to Rs 178 lakhs, but gross profit was up from Rs 6 lakhs to Rs 8 lakhs. Net profit was Rs 1,40,793 (Rs 1,02,395). The recommended dividend of six per cent will require Rs 1,50,000. The company's name is proposed to be changed to "Podar Silks and Synthetics Ltd" to "identify" it more effectively with the Podar organisation.

FROM THE CHAIR

The Century Spinning and Manufacturing Co Ltd

Statement of the Chairman, Shri R D Birla

THE following is the statement of the chairman, Shri R D Birla delivered at the 73rd Annual General Meeting of the Company held on Friday, 26th June 1970.

LADIES AND GENTLEMEN,

I extend to you all a cordial welcome to the 73rd Annual General Meeting of the Company. The report and accounts of the company have already been in your hands for some time and you know the results. I have nothing much to add thereto.

This, however, being the first Annual General Meeting of Shareholders since Messrs Birla Gwalior Private Ltd, ceased to act as Managing Agents of the company I would like to recall the progress made by the company during the period the company was managed by them from 1-7-1959 to 30-6-1969 and prior to that by Messrs Birla Brothers Private Ltd, from 1953 to 1959. You might be aware that the management of your company had changed in April 1951.

The following comparative table will give a rough picture of the progress made by the company since 1951:

	Position for the year ending 31-12-51 (Rs in lakhs)	Position for the year ending 31-12-69 (Rs in lakhs)
1. Gross Profit	92.37	1251.13
2. Gross Block	224.05	3959.79

3. Sales	732.65	4838.72
4. Exports	—	180.82
5. Capital	109.43	504.88
6. Corporate taxes	33.00	450.00
7. Excise duties	60.80	809.32
8. Salary and Wages	158.03	809.48
9. Total amount of dividend	21.89	141.95
10. No of Shareholders	1430	14693
11. Market value of share	Rs. 315	Rs. 700*
12. Dividend per share	Rs. 20	Rs. 40
13. No of employees	10077	20845
14. No of spindles	109320	137044
15. No of looms	2739	3074

*Equivalent to about Rs 2610/- after adjustment of bonus and rights.

I would leave it to our worthy shareholders to find out from the above as to how much the erstwhile Managing Agents contributed to the progress of the company. It will not be out of place to mention that I have received several letters of appreciation from the shareholders of the company; many of them have personally conveyed to me their compliments for the performance of the erstwhile Managing Agents who greatly contributed to the progress made by the company. On behalf of the

Board and the erstwhile Managing Agents of the company I express my sincere thanks to all such well-wishers and hope that the company will maintain its tempo of progress with the wise counsel of Shri G D Birla and Shri B K Birla who have graciously agreed, at the Board's request, to continue to give their valuable advice to the company in an honorary capacity.

BONUS ISSUE

It has also been noticed that the maintenance of dividend for the year under review at the same level as last year, in spite of higher profits, has been a matter of adverse comment by some shareholders as is observed from press reports and letters which the company has received from some shareholders. In this connection, I would like to say that this decision was taken by the Board after due consideration of all factors and particularly keeping in view the pending bonus issue. Further it may be appreciated that against a total distribution of Rs 1,36,03,800 as dividend for 1968 it has been Rs 1,41,95,280 for 1969. Moreover, maintenance of dividend at last year's level is, in my view, in the long-term interest of shareholders who are certainly bound to reap the fruits of this policy in future.

Turning to the subject of the quality of goods manufactured by the company, I am pleased to mention that the Textile Division has considerably improved

its pattern of production. It is now manufacturing more sophisticated varieties of cloth which have been very well received in the market. It would interest you to know that the Textile unit is producing cloth with 100 per cent cotton, without mixing any synthetic or man-made fibres, and yet achieving the look and feel of woollen, terycot and raw silk materials. The quality of our Rayon and Tyrecord yarns also compares favourably with the quality of yarn manufactured by the more advanced countries of the world.

I would also like to mention that in consonance with the company's social and industrial obligations, a sum of Rs 24 lakhs has been paid to research institutions, about which reference has been made in the Directors' Report. One of these institutions is the Birla Institute of Technology and Science at Pilani. Many of you may not be aware of the history and activities of this institute and the contribution it has made to research. If a sizeable number of shareholders were to express their willingness to visit this institution to see how well the moneys of the company are being utilised, the company will be prepared to arrange for such a visit. The best time to visit Pilani would be in December and the trip would take about a week.

BRIGHT FUTURE

I would also like to say a few words about the future prospects of the company. The future on the whole is bright, if our schemes for cement and pulp are implemented at an early date and provided no unreasonable controls are imposed in respect of Rayon and Tyrecord yarn. We hope that the Government will not take any step that will affect production as thereby exports, accrual of revenues to the Central Exchequer, employment and the tempo of expansion will all suffer a setback. The Directors are trying their best to expedite the implementation of the various schemes. Subject to any unforeseen circumstances, we hope that the workers, staff and shareholders who all are contributing in their respective ways to the progress of the company will continue to share the "juicy" fruits produced by the company each year. If, however, cotton prices continue to rule high and shortage persists, the Textile Section might be slightly affected.

India's economy is improving, but the pace can be accelerated further if the law and order situation in the country normalises and there is industrial peace.

Bengal is the worst affected in this respect. It is heartening to note that there are signs of the Central Government moving in the matter to remedy the situation; let us hope that things will begin to improve.

Production of food in the country has been steadily going up. Although this has not brought about any significant fall in prices, complaints about shortage of food are disappearing. It is hoped food production will progressively rise in future and imports of food will soon be dispensed with. Our Food Minister deserves to be complimented for this excellent performance.

Production of consumer goods in the country, however, is not enough to meet the growing demands of the people. We have plenty of resources in men and material which need to be fully harnessed. There are shortages in man-made fibres, cotton and oilseeds. All these three supply a large part of the vital needs of the people. It is, therefore, hoped that Government will take immediate steps to remove these shortages, if necessary by resorting to imports until indigenous production attains a level of self-sufficiency. At the same time, steps should be taken to foster the growth of indigenous production in these and other essential items. Chronic shortages and continuing high prices of daily needs have made people restless.

Controls offer no solution for rising prices. They only aggravate scarcities and create more hardships. It has been acknowledged by eminent economists of the world that larger production is the only remedy for shortages and high prices. In order to step up industrial production, there should be adequate supplies of the basic raw materials. The Government, as everyone knows, is already active in this matter. But there is an urgent need for the benefits of modern agricultural research and farm services to percolate to the level of the village farmer. Then alone will production of essential cash crops—which supply the basic raw material for industries and for the household needs of the people — go up.

Democratic socialism is the country's goal and ideal. This is a good objective. Democratic socialism means an equality of opportunity and a decent living standard for all. But how can this be accomplished? Not by slogans, but by sustained, co-ordinated efforts by the Government, private enterprise and the people in the direction of larger and ever larger production. We must en-

large the size of the national cake to make it go round to all the people. Let our motto therefore be — work hard and produce more.

INDUSTRIAL CLIMATE

Our Prime Minister and the Minister for Industry know full well the value of production and are anxious to see rapid industrialisation in the country. Therefore, the climate for industries is generally good in all the States except in West Bengal. Small-scale industries are also now growing which are very useful as feeder and ancillary industries to large units and more so in the engineering sector. But unless such units are economically viable, they will not be able to produce goods efficiently or at competitive prices. While independently they cannot contribute much either to domestic production or to exports, yet they are most essential as feeder to large and heavy industries. Large and small-scale industries are thus interdependent. They do not necessarily compete but play their respective roles in assisting each other. It therefore follows that larger the growth of big industries greater the scope for small-scale industries. The Government must, therefore, encourage both large and small-scale industries. This alone will ensure larger production in an efficient and economical manner leading to higher incomes, lower prices and better living standards for the masses in the country.

Sometimes we find that the Government does not take steps which, in our view, are considered necessary for economic progress. It is not that they do not know the facts or what is required to be done. Sometimes there may be compelling reasons which hold up their action. We should, therefore, refrain from blaming the Government for everything that goes wrong. In a democracy, mistakes do occur but time and circumstances always set them right.

Before concluding, I would like to extend my warm and sincere thanks to the workers, staff and officers of the company without whose active co-operation and devoted hard work, it would not have been possible for the company to achieve these results. I hope that the management will continue to receive their co-operation in the same measure in future as always in the past. Thank you.

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

The Baroda Rayon Corporation Limited

Speech of the Chairman, Shri Jaykrishna Harivallabhdas

THE following is the Speech delivered by Shri Jaykrishna Harivallabhdas, Chairman, Baroda Rayon Corporation Ltd, at the Eleventh Annual General Meeting of the Company held on June 25, 1970, at the Registered Office, Udhna, Surat:

LADIES AND GENTLEMEN

It gives me great pleasure to welcome you all to this 11th Annual General Meeting of your Company. The Directors' Report together with the Audited Accounts for the year ended 31st December, 1969 has been in your hands for quite some time. I shall take the same as read and confine myself to the present problems and anticipations.

It is a reassuring thought that the period of recession of the last couple of years seems over and the country is launching forth on a sounder basis both in the agricultural sphere and in the industrial sphere. We have had a couple of good agricultural seasons in general, though parts of Gujarat and a few other States have had to cope with difficulties of flood or drought in special areas. Industry also has looked up and the climate is favourable for steady advance. We are particularly fortunate in this region for political steadiness and well-ordered conditions, which assist industrial growth. Your Company may be expected to share in these better conditions, if necessary permissions are speedily given for adequate expansion and helpful diversification. I shall now turn to the Directors' Report and Accounts before this meeting.

Let me first of all invite your renewed attention to the Dividend recommended for this year at the rate of Rs 8/- per share. You would have gathered from the Directors' Report that half this Dividend (Rs 4/- per share) will be exempt in the hands of recipients under section 80 K of the Income-tax Act, and to that extent the Dividend is more favourable than hitherto. You will also have noticed that the profits of the Company did not attract any tax liability for the year under report. The position will change fundamentally next year, since profits for the financial year 1970 will be subject to full corporate tax. In other words, lesser net profits after tax would be available in future than for the year 1969. The Company has maintained full working during the first part of this year and hopes to do the same for the rest of the year.

The variables in arriving at our net profit, as you are aware, are the price levels of sales, level of production and production mix, cost level, and, last but not the least, taxation which cuts into profits, whether directly as in excise duties, sales tax, etc, or through cost rises due to higher freight rates, customs duty, land, electricity and water taxes, etc. On all these fronts growing difficulties were anticipated in the speech of the Chairman of the last Annual General Meeting. In the matter of excise duties, which are a weighty factor, we were granted a favourable differential, as being a small and uneconomical unit in comparison with larger and long-standing units, since the budget of 1967. This benefit was, however, substantially cut down since the budget of 1969. For a late-coming capital-intensive unit like ours, it is essential that Government should restore the excise differential to the level of 1967-1968, if the Company is to maintain its high quality and competitive capacity under present conditions. We hope Government would sympathise with small units in this matter and enable them to survive and make their full contribution in the country's production.

Raw materials, particularly Wood Pulp, Caustic Soda, Coal, Steel and spare parts, have steadily gone up in price and raised our costs. In order to overcome difficulty as regards imported spare parts, the Company has at considerable expense undertaken indigenous development, both in its own workshop and with outside agencies, through the help of expert consultants, namely Messrs M M Suri and Associates Private Limited. It is hoped that in the long run, spare parts supply would be assured and also become more economical. Our labour relations have been stabilised with a fresh three-year agreement with our recognised Union, arrived at in March, 1970. A few matters have been taken up by this and a new-come Union before the Government Conciliator and will be handled in the normal way. The financial impact of our labour agreements and other welfare activities is a considerable rise in costs; but at the same time, it assured us harmonious labour relations and co-operation, which are fundamental to the working of any industry.

Under the recent scheme of Rayon distribution, the industry was required to give 45% of its production to weavers

at agreed prices which were much below the market prices, in addition to giving 10% of production for export purposes to fabric makers at still lower levels of prices. Synthetic fibre capacity is expanding fast and smuggling as well as State imports of synthetic fibres continue unabated. Even in the special field of the finest Rayons, which we initiated and developed, there is now larger participation by several units and keener competition. At the same time, the revised excise duty pattern hits the finer deniers relatively adversely. Despite the Company's diligence in handling production-mix problems on the one hand and distribution requirements on the other, the price controls cut deeply into profitability and preclude any scope for capital formation. The Tariff Commission has examined the cost structure of the industry, and its recommendations are under consideration of Government. We trust that the Commission's recommendations and Government directives would ensure the smooth survival and progress of Rayon industry, and particularly provide for the minimum needs of small and uneconomic units of the industry, if not by differential price fixation, at any rate by continued preference in excise duties.

FIBRES STILL NEEDED

So far as long term requirements of the country are concerned, larger quantities of all types of fibres are still needed and this is true of Rayon fibres also. In my estimation, the Rayon industry has a long and useful future for all deniers generally. Our finest Rayons have gripped the market and created their own field, even in competition with other fibres. Indeed the prospect of Rayon now would warrant full expansion of existing uneconomic units in that field; and it is hoped Government would favour such expansion. What is even more essential is to encourage diversification by uneconomic units into allied fields so that they may become more viable. We hope Government would enable this Company to achieve necessary capital formation, expansion and diversification. With that hope and expectation let me conclude my remarks.

With your permission, let me record our deep appreciation of the efficiency and devotion with which all our officers, staff and workers carried out their duties during the year.

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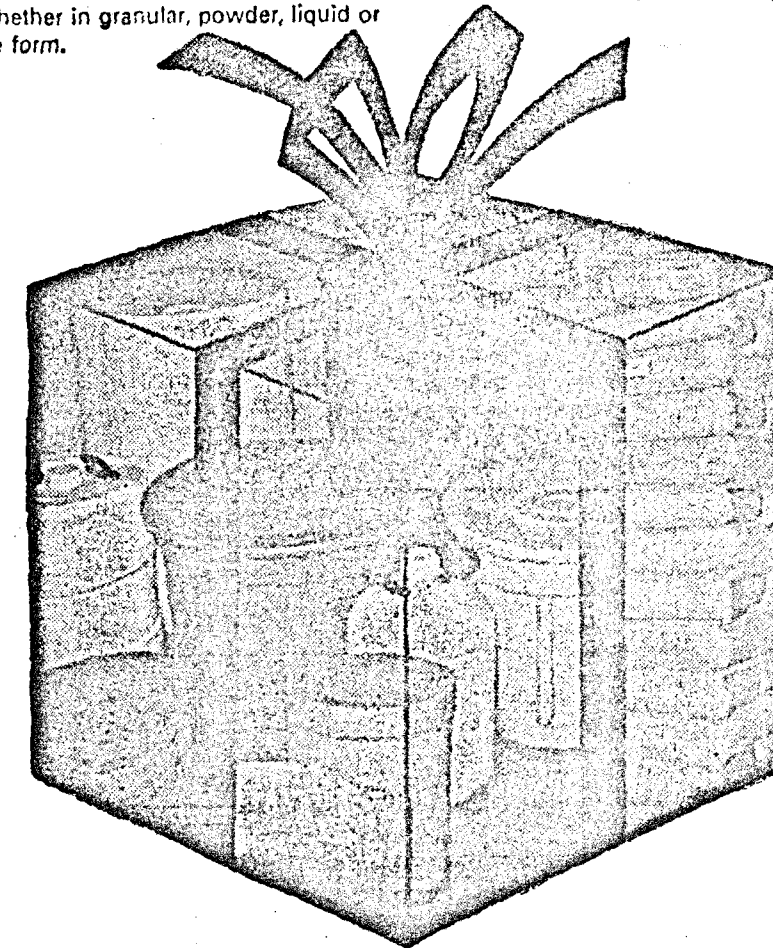
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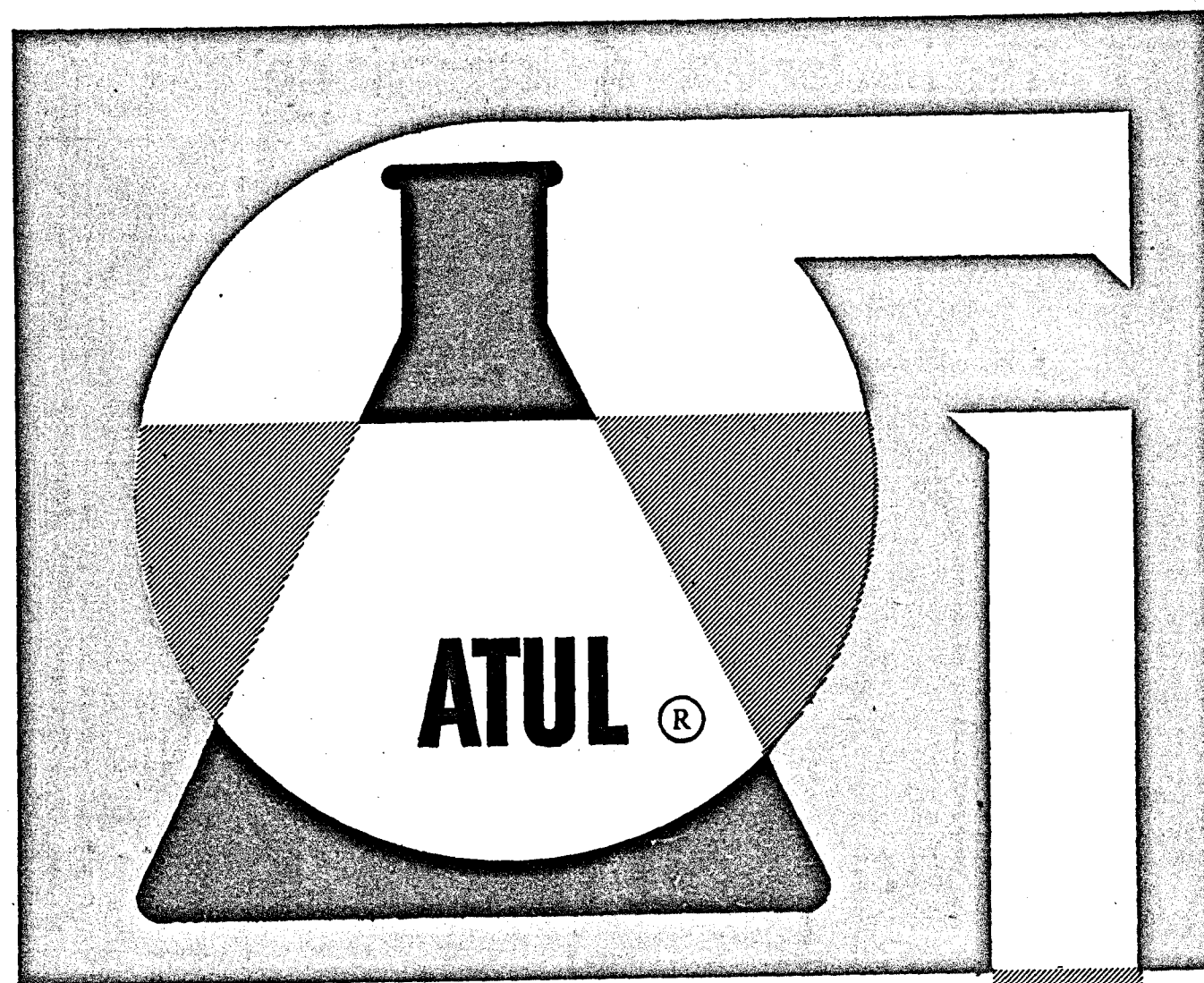
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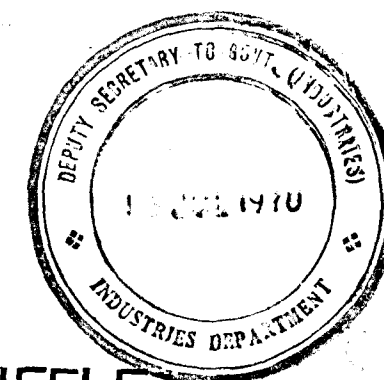
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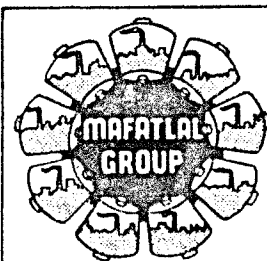


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ARTISTS M 23 D

ECONOMIC AND POLITICAL

WEEKLY

Founder-Editor : Sachin Chaudhuri

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ECONOMIC AND POLITICAL WEEKLY

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Guilty before Trial?

THE recent highly publicised arrests of 13 alleged Naxalities in Bombay have diverted public attention from the issues raised by the communal riots in May in Bhiwandi and other places in Maharashtra. They have also turned attention away from the brutal murder of Krishna Desai, a prominent trade union leader and CPI member of the State Assembly. In fact, the manner in which the arrests have been reported and discussed has served to create a climate of opinion hostile to all Leftist, particularly communist, political activity at a time when the Leftist parties were trying, however ineffectually, to devise a joint approach to combat the forces allegedly responsible for the Krishna Desai murder. It is this whipping up of suspicion and encouragement of intolerance, wittingly or otherwise, which constitute, from the long-term point of view, the most dangerous aspect of the situation and so deserve serious consideration. One has in the last few days come across people, especially in the academic world, who fear that the fact that they had, say, addressed a meeting organised to protest against the invasion of Cambodia by American troops may qualify them for the unfavourable attentions of the police or their employers. The fears may be exaggerated, but they speak for the kind of atmosphere that is being created.

In this context the press conference on Wednesday addressed by the police official in charge of the investigation into the activities of the alleged Naxalites calls for comment. The arrested persons, it needs to be noted, have not been convicted by a court of law; they have not even been sent up for trial; in fact, the police have not even framed precise charges against them. And yet, going by newspaper reports, at the press conference the police official concerned gave details of their supposed conspiratorial activities and their future plans. He discussed the evidence against them, including the documents, etc, seized from them. The names of all the arrested persons were mentioned along with details of their careers; etc. The police official also claimed, according to newspaper reports, that with the arrest of the 13 people "the Bombay police had broken the back of the Naxalites before they could get started". Understandably, the press conference received headline treatment in the city papers and was prominently reported in newspapers all over the country. One of the Bombay papers published a photograph of one of the arrested persons and described her, without any reservation whatsoever, as "one of the 'two brains' behind the Naxalite movement in the city".

It is a basic principle of our system of jurisprudence that an accused, however grave his supposed crime, is assumed to be innocent until his guilt is proved by fair trial in a court of law. And to ensure fair trial it is essential that neither the accused nor the prosecution (nor anyone else, for that matter) should, outside of their arguments before the court, do or say anything which might prejudice the minds of the judges. Judged by this criterion it is open to serious doubt whether, by the manner in which the activities of the alleged Naxalites were discussed at the press conference referred to above and subsequently reported in the newspapers, their chances of getting a fair trial have not been jeopardised. Further, it is not inconceivable that at their trial some of the arrested persons may be found innocent; indeed it is even possible that the police may decide not to press charges against a few of them. But in the eyes of their friends, their professional colleagues and the general public they have been already virtually adjudged to be guilty!

This issue has a personal and a general aspect to it. Many of the arrested alleged Naxalites, newspaper reports say, are teachers with promising academic careers in city colleges. Now, except for a few enlightened institutions, our colleges, most of them run by religious or communal organisations or by the government, are not particularly known for their tolerance of Leftist political opinion, much less of any suggestion of Leftist activity. It may be presumed, therefore, that the careers of at least a few of the alleged Naxalites have been imperilled even if ultimately their innocence is established in court. More generally, there is the threat to democratic freedoms posed by the general climate of suspicion and intolerance that is bound to be generated if the view persists that those who hold certain kinds of political views — call them Naxalites or what you will — are "fair game" and that in their case the normal legal safeguards and conventions can be given the go-by. It may be considered trite to hark back to the MacCarthy inquisition in the United States, but clearly it would be taking an over-optimistic view of the strength of our democratic traditions to complacently assume that the same danger will not be visited on our academic institutions, our professional associations and our society in general.

This may not be a matter of concern to the so-called Naxalites; but it should be to those who have not yet been driven to total cynicism about our economic, political and social systems.

When Aid Becomes a Dirty Word

A Correspondent writes:

INTERNATIONAL aid for development is a subject which has always evoked a great deal of cant. This has prevented a realistic assessment of the cost-benefit of the aid relationship from the point of view of the aid-receiver. It has also tended to discourage frank public discussion of the problems that this relationship throws up. One such problem that everyone has tried to sweep under the carpet is the aid-givers' attitude to aid-receiving countries extending long-term credit to finance their exports, especially of capital equipment. As a superficial level, the argument is attractive that countries which depend heavily on aid to finance their development plans have no business to do the aid-givers' mantle. This is the kind of argument which members of parliament in the developed countries can be expected to clutch at in their attempt to curb, what they believe to be, their governments' runaway charitable dispositions. But what is significant is that even the World Bank has actively discouraged extension of long-term credit, or aid-giving, by developing countries. It has taken this position in relation to India, though one will not catch our aid-hunting officials admitting as much.

Objectively speaking, the fact that a country receives aid is no reason at all why it should not seek to promote its exports by extending long-term credit to potential buyers. The aid it receives is used to finance import of equipment or materials or skills that it lacks. But a country like India, even as it may need to receive aid — and in large quantities — to further its development, may in turn have exportable surpluses of, say, certain types of capital equipment which another developing country may be in need of but may be unable to buy unless India extends it aid (that is, long-term credit) to finance the purchase. There is thus no contradiction involved in the same country receiving and dispensing aid.

From the point of view of a country like India, there are very sound reasons for promoting exports by giving aid.

We know by now that it is difficult to maintain the rate of investment in the economy at a uniformly high enough level to ensure a steady off-take of the output of the expanding capital goods industries. In years when domestic demand for the products of these industries is slack, it is both necessary and possible to find export outlets for them. One difficulty, however, is that the potential buyer has a choice of buying the same goods from some developed country which is, besides, ready to finance the purchase by extending aid. Obviously, if we are to be competitive we too will have to provide comparable credit facilities.

It may be argued that such exports do not yield immediate foreign exchange earnings. But that is no reason why they should not be made. Apart from helping to tide over the inevitable recessions in capital goods industries, the aid we give to other countries, while it is tied to purchases from India, will bring in free foreign exchange when it is serviced and repaid. This is an advantage which the developed aid-giving countries now enjoy; they insist on aid which is tied to purchases from the aid-giving country being serviced and repaid in freely convertible foreign exchange. Why should not countries like India have similar arrangements with other developing countries without interference from the developed aid-giving countries or from institutions like the World Bank?

From the broader viewpoint, any aid that India, and countries like it, are able to give will go to increase the aggregate volume of international development assistance. Surely, this is something that the Western aid-givers and the World Bank should applaud?

Why then do they frown on aid-giving by countries like India? In certain lines of capital equipment, countries like India are quite capable of competing with the developed countries provided the advantage that the latter enjoy in the form of their tied aid is neutralised. What makes the developed countries nervous about aid-giving by countries like India is the competition to their own exports that such aid is likely to generate. That the World Bank should share this nervousness only shows that behind its international facade, most of the time it promotes the interests of the Western developed countries — especially the biggest of them, the United States.

Consolidators and Visionaries

IT is axiomatic that revolutions, particularly those that have involved a long, bitter and bloody struggle, mould two types of leaders, the visionaries and the consolidators. In the first flush of revolutionary triumph, the visionaries with their great ideas and promises of a brave new world are the men of the hour. When expectations are not fulfilled and it becomes necessary to fructify power, the consolidators make their appearance. Five years ago, Houari Boumedienne, who was then the commander of the Algerian Army, took over power in a bloodless *coup d'état*. He and the men who backed him set out to establish firm control over a country which had developed a taste for regional and autonomous self-help, causing much economic chaos and political confusion.

Ben Bella, Algeria's President before Boumedienne, had for the first couple of years after independence in 1962, played a significant role in expressing the fervour and jubilation of the Algerian people, who had made the French retreat after one of the most heroic struggles for national self-assertion, surpassed only by the fight of the Vietnamese people. In 1964-65, there were increasing signs of restiveness, particularly in the mountainous regions of Kabylia and Aures, with former regional guerilla commanders establishing their own rule. These movements for local autonomy were not dealt with very firmly as Ben Bella was deeply involved with foreign affairs, specially the proposed conference of non-aligned nations to be held in Algiers. This was not to take place due, among other reasons, to Boumedienne's *coup* in June, 1965.

The past five years have seen the successful conversion of large estates, formerly owned by the *piéds noirs* (European settlers), into farms run by workers' councils aided by managers seconded by the Government. At first, this led to inefficient farming, but after some years of trial and error, the farms are now extremely well conducted. Workers' participation in making decisions is also a feature in mills and factories. Regional and district assemblies have been elected, although these are usually held in check by agents of the Revolutionary Council, Algeria's supreme executive body.

Algeria, at the moment, has a curious split personality. On the one hand the self-confidence generated by the hard-fought war of independence has made Algerians succeed in operating

farms and factories, democratically and efficiently. Foreign expertise and credit have been used very calculatingly in the oil and mining industries. Collaboration agreements were made with American and European firms and abruptly terminated when their technical and credit functions had been served. In this sense, the Algerians have dealt with foreign "aid" in a unique manner — a useful example to other third world nations. On the other hand, the political apathy engendered by a bloody war still continues. The younger generation in Algeria rests on the laurels gained during the war and is not too bothered about participating in politics. For this reason, the Boumedienne Government seems to be capable of retaining power without any need for extreme measures of control. The revolutionary leaders ought not to forget, however, that while they have helped to consolidate the nation, there is every likelihood that this will not be enough. The Algerian people will again begin to yearn for visions and ideals beyond mere economic development and national unity. Perhaps, Boumedienne is not as firmly in power as he appears to be. He has been a successful consolidator. Due to his very success, Algerians might begin to look for a visionary once again.

Yesterday's Foe

Our Gujarat Correspondent writes:

AFTER a brief spell of quiet, things are on the boil again for the Hitendra Desai Government. The fear of the Government being toppled by defections had subsided and, in fact, with the upheaval in the State Swatantra party following the expulsion of C C Desai from the party, the opposition had lost much of its aggressiveness. What has upset matters for Hitendra Desai now is not the opposition but the Central leadership of his own party.

The political resolution passed by the meeting of the AICC of Congress (O), calling for the formation of a united front of 'democratic' forces to combat the alleged gang-up by Congress (R) and the communists have raised a hornet's nest in Gujarat. Like everyone else, the State unit of Congress (O) has interpreted the call for a democratic front to mean an alliance of Congress (O), Jan Sangh and Swatantra. Understandably, the thought of 'an alliance with the Swatantra, which was till the other day the Government's sworn

enemy, has upset the party leadership and confused the rank and file.

The antipathy to Swatantra is only partly ideological. Having survived the Swatantra's most determined efforts to topple the Government, the Congress (O) leadership in the State has found a new confidence. In the last few weeks the tide had been flowing very much its way. There were serious differences within the Swatantra party over the expulsion of C C Desai and the attitude to be adopted towards the Government. And for once it was the Swatantra party whose strength was depleted by the defection of MLAs — till the party ceased to pose any immediate threat to the Government. Having worsted the Swatantra party, the Congress (O) leadership sees no reason for now accommodating it in a united front. Any alliance, the Congress (O) knows, will ultimately involve sharing of power for which it sees no need since in its present mood it is quite sure of being able to face an election on its own.

A second reason for the opposition to a possible alliance with the Swatantra is that the top leaders of the Congress (O) fear that some of their opponents in the party will use the issue to undermine their position in the party. If the issue could be so presented as to make it appear to the rank and file that the interests of the Gujarat Congress (O) were being sacrificed for no better reason than to further Morarji Desai's personal ambitions of regaining lost power, it would make considerable impact. As it is, there is a widespread feeling in the party that the present leadership is too subservient to Morarji Desai. The opponents of

the leadership would be able to exploit the alliance issue to play on this feeling. This is perhaps the major consideration which weighed, with the party president, Vajubhai Shah, who can have no ideological qualms about associating with Swatantra.

There is, however, a group of people in the party whose opposition to the alliance plan is on ideological grounds. Many of them are former PSP-men and still have a vague commitment to socialist ideas. The Finance Minister, Jaswant Mehta, who has been outspoken in his criticism of the alliance proposal, may be said to belong to this group.

This is not to say that the Gujarat Congress (O) is overwhelmingly opposed to the alliance strategy. After all, the party gets its support from the land-owning and the business communities and there is a powerful section in it which is prepared to concede the case for the alliance from, what they call, the 'national' point of view. They really believe that the present Central Government is only a step away from being a communist Government and that unless Indira Gandhi is removed from power the country will soon go communist. To save themselves and the country from this dire fate they are willing to support the policy of allying with Swatantra and Jan Sangh even if it means sharing power with these parties in the State. Morarji Desai recognises this. His strategy appears to be to let the initial storm blow over — he has desisted from rushing to Ahmedabad to convince his Gujarat colleagues — and then to let the compulsions of national politics wear down Gujarat Congress (O)'s opposition to the alliance with Swatantra.

Special Number 1970

The Special Number 1970 of *Economic and Political Weekly* will be published at the end of this month. It will be a 180-page issue and will be priced Rs 10. Postage and registration charges will be Rs 1.50.

The Special Number will be supplied free to subscribers. Agents are requested to place their orders in advance.

In view of the Special Number, there will be no weekly issues on July 18 and 25 and August 1.

Circulation Manager

BUSINESS

Leather: End of Easy Exports?

THE steady increase in exports of leather of all kinds (including hides and skins) to a record level of Rs 93 crores in 1969-70, compared to Rs 83 crores in 1968-69 and Rs 70 crores in 1967-68, permits cautious optimism that the Fourth Plan target of Rs 115 crores may be achieved. The target of Rs 160 crores suggested by the Ministry of Foreign Trade is too ambitious, however, and the prospects of achieving it are dim.

Though leather exports have been growing, there are good reasons why too optimistic a view of the future export trend is unwarranted. For one thing, severe competition from China and Pakistan, who have emerged as large leather exporters, is threatening to undermine our hitherto favourable position. Japan, which has been one of the major importers of our tanned leather, is turning increasingly to Pakistan. Japanese buyers had once complained of the high percentage of adulteration and "wide-ranged" leather in Indian consignments.

The Indian leather industry depends almost entirely on imports for raw materials, particularly of wattle extract, the main tanning material. Auxiliaries like fat liquors, syntan and finishing materials, particularly certain dyes, are also often in short supply. The shortage of EI vegetable tanned hides and skins and the resultant sharp rise in their price reduces the scope for raising their exports. This is a serious matter since EI vegetable tanned hides and skins now constitute a good portion of our leather exports.

Another factor which might contribute to a possible setback in exports is the rapid change taking place in fashions in leather wear in international markets. What is known as "crumpled patent leather", made out of cow-hides imported from South America, is reported to be becoming popular in US and West Europe, which are at present major markets for Indian leather. Again, India has been unable, for want of satisfactory manufacturing facilities, to exploit the growing market for finished leather products like shoes, handbags, bicycle seats, purses, gloves and several other industrial leather articles. All this points to the structural changes that have to be introduced in the leather industry if our exports are to be maintained. Quite apart from the fact that we ought in any case to aim at exporting leather in as finished a form as possible, it ap-

pears that the scope for increasing exports in unfinished or manufactured form is getting severely limited. To promote export of finished leather products, it is necessary to set up more mechanised manufacturing units.

On the raw material side, the present heavy reliance on imports of wattle extract, which makes Indian leather costly, has to be reduced. A concerted effort for collection of all available indigenous vegetable tanning material is called for. Forest contractors should be required to remove tanning barks and nuts before selling wood; also, more extraction units should be set up and import of tanning machinery and equipment should be liberalised.

Finally, a major cause of the poor quality of much of Indian hides is that they come from dead animals. In other countries raw hides and skins are by-products of the meat industry. This calls for reorganisation of the animal slaughtering industry along modern lines through properly equipped abattoirs. In the meantime, the Central Leather Research Institute, Madras should undertake research into ways of preserving the strength of hides extracted from dead animals.

Diversification, the Answer

AMONG viscose yarn producers, Baroda Rayon was the last but one to enter the field; it also has the smallest plant. In his statement to shareholders, chairman Jaykrishna Harivallabhdas argues that both these factors put his company at a disadvantage compared to larger and older units like National Rayon and Century. Government had once accepted this argument and the 1967 Budget had allowed Baroda Rayon a favourable differential in the matter of excise duties. This benefit was, however, substantially reduced in the 1969 Budget.

The golden age for rayon yarn manufacturers was the period from 1950 to about 1962. Because of its late entry Baroda Rayon got no share of this prosperity. By the time the plants of South India Viscose, Baroda Rayon and Indian Rayon went into production, all between 1961 and 1963, the growth in demand had begun to taper off. Besides, Baroda Rayon did not even have South India Viscose's advantage of vertical integration. Similarly, it is a fact that Baroda Rayon's capital costs

are higher than those of the larger and older units. Thus, its provision for depreciation for the year ended December 31, 1969, was Rs 64 lakhs against sales of Rs 653 lakhs while the corresponding figures for National Rayon were Rs 134 lakhs and Rs 1,773 lakhs.

It needs to be mentioned, however, that Baroda Rayon's modern plant enables it to produce finer yarn than the older units. Similarly, the company also has a locational advantage; the weaving industry at Surat provides an easy market for its output. The success that Harivallabhdas claims in handling "production-mix problems" and "distribution requirements" is largely due to these advantages.

Baroda Rayon had no tax liability for 1969, but profits for the financial year 1970 will be subject to full corporate taxation. Even with satisfactory working the company's after-tax profit will, therefore, show a steep decline next year over this year's level.

Harivallabhdas's answer to his problems is to plead for revival of the excise differential given in the 1967 Budget. However, this will not solve Baroda Rayon's basic problem which is its uneconomic size. Harivallabhdas is on firmer ground when he presses his case for expansion and diversification.

Given the present market conditions, Baroda Rayon cannot be very enthusiastic about expansion. But when the time comes for the next round of expansion of capacity in the industry, Government will have to give preference to the claims of small-sized units like Baroda Rayon. Immediately, Baroda Rayon's hopes lie in diversification. The company has plans of branching into nylon, a move which clearly deserves to be encouraged by Government.

Starved Re-rollers

THE poor performance of the steel units has queered the pitch for the re-rolling industry. Thanks to the persistent problems at Durgapur, Hindustan Steel's production is about 1 mn tonnes below capacity. To make matters worse, HSL has been exporting billets to get some easy credit for export performance.

The capacity of the independent re-rollers is 2.76 mn tonnes. But billet supplies to the re-rollers have gone down from an average of over 900,000 tonnes per year in the Third Plan period to 774,000 tonnes in 1968-69 and 637,000 tonnes in 1970-71. Moreover,

with steel billets in short supply, pilferage on railways has increased, reaching as much as 40 per cent on some consignments, thus further reducing supplies to the re-rollers. Anticipating billet problems, Mukand set up its own con-cast facilities, thus winning for itself some independence from the vagaries of supplies from the main producers.

During the industrial recession, which hit them hard, re-rollers had developed export markets which now account for half to two-thirds of their output. These exports have been jeopardised by the billet shortage.

The planned supply of billets to the re-rollers from the main producers is 636,000 tonnes in 1970-71, against estimated requirements of 1.5 mn tonnes on two-shift working and minimum needs of 900,000 tonnes (which, incidentally, was the estimate of the re-rollers' requirements made by the Raj Committee as far back as in 1963).

The re-rollers have other suggestions to meet their problems: If HSL miraculously solves its problems and produces 1 mn tonnes of steel more, they would like 200,000 tonnes of billets from this additional output. As a long-term solution, they suggest five con-cast units, each with 100,000 tonnes capacity, for exclusive supply to the re-rollers — and similar plants for each of the main producers except Rourkela. In addition, of course, they seek control on export of scrap.

The re-rollers' problems are intricately mixed up with those of the main producers. Essentially it is a matter of planning. Our exports of steel must be in the maximum manufactured form. There is a boom for rolled steel products — bars, rods and so on — in South-East and West Asia. We need to follow a coherent production and export policy to cash in on this boom on a long-term basis.

Tinkering with Standard Motors

AFTER the initial show of concern, both the management of Standard Motors and the Tamil Nadu Government are dragging their feet in tackling the situation created by the company's decision to close down its plant. The management has tried, from the beginning, to put the blame on labour problems. Naturally, it has been unwilling to acknowledge its own contribution to the company's long-term difficulties. Clearly, any short-term solution such as additional finance from the

State Government, or a larger foreign exchange allocation or a higher price (that is, if buyers can be found willing to buy the cars at the higher price) will only postpone the hour of retribution by a few months.

For its part, the Tamil Nadu Government seems to be still groping in the dark. It would like to take over the "management" — but without paying for the company's assets. Apart from questions about the competence of the management it might provide, it appears that the State Government expects to rely on Central support to carry on operations. But unless the basic pro-

blems of Standard Motors are tackled this kind of a salvage exercise will not go very far.

It is clear enough that neither Standard Motors' management nor the Tamil Nadu Government is giving any thought to long-term planning of the automobile industry in the South. The base for such a policy is provided by Ashok Leyland. By pushing through a merger of Standard Motors with Ashok Leyland, the foundation of a really viable automobile unit can be laid. Any other solution, including a take-over by the State Government, will only perpetuate Standard Motors' basic problems.

LETTERS TO EDITOR

Send Them No Flowers

WHAT your correspondent has written ("Send Them No Flowers", June 20, p 958) about "police atrocities" on Naxalite detainees is biased and does not reflect the actual situation. In a big city with over five million population, the sheer number of heads puts the police in a very difficult position whenever they have to face law and order situations. It is difficult for the police to single out a few from the crowd in the absence of iron proof. Taking advantage of this anonymity resulting from the vast numbers, a handful of adventurists are engaged in wanton destruction of property, arson and what not, in the name of an international leader. Frustrated cynicism is not the backbone of Chinese communism; on the other hand, it is hard work and disciplined behaviour that are so astounding in the Chinese mainland. The adventurists in India have diluted the teachings of Mao by replacing discipline by destruction and hard work by political blackmail. It is our complaint in Calcutta that police are not effectively tackling the Naxalites by adequate force. Your correspondent has reported otherwise.

V S KRISHNAMURTHY

Calcutta
July 2

[Our Correspondent writes: I note that V S Krishnamurthy does not deny the allegation of torture of Naxalites in Calcutta. His complaint, presumably, is that there is not enough of it. I believe that use of torture and third degree against citizens, however grave their supposed crime, has no place in a civi-

lised, democratic society. Evidently Krishnamurthy has little use for such a society.]

Chaibasa Riots

AS a regular reader of his column, I wish Nireekshak would sometimes take note of what appears in the periodicals, especially some of the smaller ones. For instance, the June 27 issue of *Frontier*, published from Calcutta, carries a startling report on the communal riots in April in Chaibasa, Bihar. The report, by N K Singh, gives details of the riots and of the events leading up to them which I do not remember reading in daily newspapers either at the time of the riots or afterwards. Most important, the report contends that much of the rioting and killing was perpetrated by policemen. To quote from the report:

"In the first two hours the riots was an affair between Muslims and Hindus in which some 45 persons were injured and some were killed. But after that the majority receded into the background, with the town put under curfew.

"It is alleged that policemen of lower ranks took the field and resumed the riot on their own account — a riot more ferocious, devastating and brutal. Innocent people were killed and thrown into the burning houses, thus removing all chances of a post-mortem.

"The cause of this allegedly abrupt change of policemen into a squad of rioters was a rumour, which spread like wild-fire, that a constable had been slain by the Muslims. The constable was

only injured but policemen, it is said, went on a rampage."

The report adds: "Till April 17 as many as 143 arrests were made. But among the arrested there were only two from the majority community — a fantastic situation in which the overwhelming majority of the killed belonged to the minority community."

"During the presence of senior Central Government officials in the town, arrests from among the majority community, too, started later. Even then none of the ring-leaders of the RSS or Jan Sangh were affected. Reportedly, all of them were absconding."

After every communal riot there are complaints about the failure of the administration and the police to take effective action in time. But in Chailbasa, according to the *Frontier* report, the police went further and became the aggressors. After the riots the Chief Minister of Bihar, Daroga Rai, made a ridiculous statement blaming Naxalites and Pakistani agents for the riots. Obviously, then, he should be looking among his own policemen to find the guilty Naxalites and Pakistani agents.

R RAMACHANDRAN

Bombay
July 4

CAPITAL VIEW

The Next Reshuffle

Romesh Thapar

DELHI is settling down after the tensions and excitements of the past few weeks. The new Government is getting down to work. There's been a lot of criticism about why certain gentlemen weren't sacked, and why others were moved when they were just beginning to get a "feel" of their portfolios. The briefing of the new incumbents — and the lobbying! — has already started. The same old "notes" and "memos" are being brushed up for use — a strangely repetitive drama, particularly in those ministries which are expected to perform, to deliver tangible results.

With the increasing emphasis on performance and results, the power of the entrenched bureaucracy in each ministry

is naturally growing. There is the question of the vital continuum, as also the indispensability of the men who can operate within the jungle of files, of rules and regulations, without endangering the mysterious realm of accountability. The trouble is that such men are usually lack-lustre men without any imagination or perspective. They are merely wedded to careers based on a terribly antiquated system.

Indira Gandhi is looking for doers. The search has been on for some time. Unfortunately, at various levels, it is vitiated by outdated notions about ideological commitment. The scramble is on. All manner of second-raters in the civil services, and in the private sector,

are working overtime to prove their ideological commitments. Actually, their only commitment is to careerism. The Prime Minister is in danger of being persuaded to help many such plodders, because no exercise to locate talent is ever conducted by the Cabinet Secretariat.

Against this background, the bureaucratic reshuffle which is scheduled to follow the Cabinet reshuffle will, it is believed, be designed to transfer men who have been too long in particular places (one for twenty years); to push the more rigid into areas where their inflexibility and lack of creativity do not block functioning (and create political upsets); to uproot the square pegs in round holes no matter how "committed" and to whom (this is quite a business); and to clear the way for the doers who are few and far between.

It is at the point of blessing the doers that Indira Gandhi always begins to hesitate. She has a tendency to expect perfection in performance. This is rare. The doers do even as they make mistakes. This is normal, but we have as yet to accept it as normal. We demand too many checks, too much theoretical accountability, always forgetting that such "norms" have only created a thoroughly devious and corrupt hierarchy. The net result has been no performance and no return on investments. And the pseudo-"specialists" who preside over this system continue to prosper. If this goes on unchecked, all the manipulative skill we can muster will not be able to save the democratic, federal polity we have been trying to build.

Slowly, events are making Indira

Gandhi realise that performance is the critical area of decision. If the moribund old Congress talks of a tripartite (Congress-Swatantra-Jan Sangh) alliance, if the discredited CPI makes an opportunist bid for votes with its "land grab" call, if the energetic but cynical CPM plays for destructive power, it is only solid performance by the ruling party at the Centre which can neutralise these disruptive tactics and transform the political scene. What's more, it is performance, motivated and involved in the ordinary problems of ordinary people, which can also heighten the developing splits in the opposition

parties and bring about a more rational alignment of forces.

Now that power is concentrated as never before in the Prime Minister's hands, the major task before the ruling party is to structure the appropriate decision-making apparatus. It must accept the hard (but often forgotten!) fact that the presently available weapon of decision-making is rusty and not utilisable. The "style" of decision-making, in other words, must change if India is to see action. The no-changers must be broken. Enough is enough...

July 6

FROM OUR CORRESPONDENTS

LONDON

Years of Regression

THE 1970 general election in Britain will be remembered in the same light as Harry S Truman's shock election as President in the USA. In the weeks leading up to June 18, the date of the general election, political pundits were debating the size of the Labour Party's majority in the new Parliament. No one, except perhaps Heath, seriously believed that this non-election could see the reversal which has taken place. Now, with the advantage of hindsight, these same pundits are trying to regain face, and explain what went wrong with the Labour Party's campaign, and why everything went right for Heath.

WHAT WILL TORIES DO?

But the most important aspect of the shock result is that no one really knows what the Tories are going to do now that they are in office. Everyone is sifting through the Conservative manifesto and reading the election speeches, to try to ascertain what can be expected from the Tories. But already, in this first week of the new Government, it has become clear that Britain is in for years of regression as far as liberal thinking people are concerned.

The first announcement, after Heath appointed his cabinet, was from Alec Douglas-Home, former Prime Minister and now Foreign Secretary. He announced that the Government would be selling arms to South Africa. And with this announcement must come a bolstering of hopes in Rhodesia, where the Smith regime is looking to Heath

to relax at least partially the trade boycott, and to reopen talks on official recognition.

On the home front, the most serious threats to the nation lie in the promise of the Tories to clamp down on union activity, and in the expected cut-back in the social services — old age pensions, the health service, etc. Already the Tories have announced that they have relinquished the responsibilities of education authorities in their pursuit of comprehensive education. No one can pretend that the education situation was ideal under the Labour Government. They didn't on the one hand get on with enforcing a move towards comprehensive education — education which caters for children of all abilities under one roof. But at least there was hope that a better system of education would emerge.

Now, with the Conservatives, the situation is one of complete confusion. While there are still going to be existing comprehensive schools there will also be a repeal for the private and grammar schools within the state system. So the present situation, of highly different regional standards in education, and differences in the schools available to different sections of the community can be expected to be maintained. And the 11+ examination, an unfair system of school selection, will also be saved.

Already there are suggestions of a showdown between the unions and the Government. A national dock strike is

planned, and the Government's ability and eagerness to intervene, and the methods it uses is a matter of great speculation.

If there is one factor, which can be singled out from all the others as being responsible for the shock victory of the Tories, it is the concern of the public over rising prices. Wilson had hoped that he would be able to time the election between the granting of new wage levels — after the abolition of the prices and incomes policy — and the time when these new wages began to effect prices. But prices have risen sharply in the last few years, and many salaries, especially those of employees of the weaker trades unions, have not kept pace. As a result many people were disillusioned with the Government and impervious to the claims of a new strong economy. They were interested in the £ in their pockets. And though they voted for change, the situation remains the same basically. The Tories are left with the problems of the economy which the Labour party would have faced had they got back into office.

When the Tories got into office, the London Stock Exchange rose a record 23 points on the *Financial Times* index on the first day. But it soon dropped to a lower level. Businessmen had remembered that with a new Government does not come a clean slate. The Tories are facing the same problems the Labour Government had faced. And while the City is confident that in some aspects the Government will keep the economy buoyant, it also realises that industrial unrest is more of a threat than before.

The election campaign was a puppet affair. Few people would have even remembered that they had voted if the Labour Party had not suffered its shock defeat. Not one was really involved with policies or issues.

LABOUR'S FUTURE

And what of the future now for the Labour Party. In the 50s and early 60s Labour did prove an effective opposition, and benefited from its years in opposition. It is hoped that the party may be similarly rejuvenated by this present period of sitting across the floor from the Government. But the next Labour Government, when it comes, will undoubtedly be very different. It may not be led by Wilson who, although he will go on as leader for some time, cannot be expected to carry on alone for too long. And Labour has lost many of its old guard 'social-



ist' pioneer members: George Brown, Richard Crossman — who has gone to the *New Statesman* as editor — and Jenny Lee, Nic Bevan's widow. So for socialists, whatever their criticisms of the Labour Government's concessions to the civil service or of its failure to get on with and implement the so-

NEW DELHI

Revising the Refinery Agreements

THE Ministry of Petroleum and Chemicals has, it is reported, at last initiated talks with the three international oil companies for revision of their controversial refinery agreements. The Ministry is moving in this matter with caution because of the delicate nature of the issue and its implications for foreign investment in the country about which there is always considerable perturbation in Government.

The Ministry has been emboldened to tackle this problem after the report of the Shantilal Shah Committee on Oil Prices and its own success, after a prolonged battle of nerves, in securing substantial reductions in the price of crude oil imported by the foreign companies. The Oil Prices Committee had specifically recommended that the refinery agreements should be renegotiated and revised. It had suggested the establishment of a National Petroleum Commission as a statutory body to serve as the overall policy-making and co-ordinating authority for the petroleum industry, covering all its aspects from exploration and supply of crude to marketing of products. The Committee had proposed that this body should be made responsible for renegotiating the refinery agreements with the oil companies. The Committee had felt that the agreements with not only Burmah-Shell, Esso and Caltex but also with Phillips Petroleum and National Iranian Oil Company for crude supply to the Cochin and Madras refineries, respectively, required to be revised. The arrangements with the French for supply of crude to the Haldia refinery, now under construction, were also not considered altogether satisfactory by the Committee.

But while the Petroleum Ministry has apparently accepted the need for revision of the refinery agreements, it wants to keep this matter under its own direct charge and not function through an independent body, as proposed by the Shantilal Shah Committee. The Ministry is also of the view that the

cialism they voted for, the future looks pretty bleak.

With a majority of 30 the Tories can last out their five years, and looking at the post-War cycle of Governments, it is not unreasonable to fear that they may be in office for rather longer than one term.

renegotiation and revision of the agreements should not be taken up as a single, concerted move. Each agreement should be taken up separately and those with the three international companies which have wholly-owned refineries here should receive attention first. This approach appears to be sound and is likely to be more effective.

It is pointless to regard the deficiencies which have now been revealed in the refinery agreements as being the result of lapses on the part of Government at the time when the agreements were entered into. The agreements have to be judged in the light of the circumstances then prevailing and the level of development of our national oil industry that had been achieved at the time. In fact it is possible to pinpoint the need for their revision now precisely because of the significant progress that the national oil industry has made in the meanwhile. The public sector Indian Oil Corporation now commands nearly 60 per cent of the oil products market and its share is likely to rise to 72 per cent by 1975 and 84 per cent by 1980. The public sector's share of refining capacity will also be roughly the same in these years. Obviously, this makes it possible for Government to deal with the problems of the oil industry today in a manner which would have been unthinkable 20 years ago when the international oil companies were invited to set up refineries, which they did on their own terms as outlined in the special refineries agreements.

WEAKEST LINK

The weakest link in the national oil industry today is production of crude. What is more, this problem is going to get more serious in the coming years. Our present imports of crude oil, mainly through the foreign oil companies, run to well over 10 million tonnes a year at a cost of about Rs 100 crores in free foreign exchange. There is little prospect of import substitution in crude in

the foreseeable future and crude imports are estimated to more than double in the next five years. Since most of the new refining capacity is proposed to be set up in the public sector, it will be the responsibility of the national oil industry to make suitable arrangements for import of crude. The problem of revising the existing refinery agreements too is essentially one of making alternative arrangements for import of crude. For, it is on the question of any changes in their existing arrangements for crude import that the international oil companies will prove to be most unyielding.

The oil companies have over the years surrendered many of their privileges under the refinery agreements. And for the last several years they have been willing even to terminate the refinery agreements and do business under the general system of industrial licensing. But one thing they have insisted on retaining is their right to import crude for processing in their refineries from their own sources of supply. These sources are shrouded in secrecy and the precise terms and conditions on which the crude imports are made are never disclosed. As a result, there has been always considerable scope for manipulating prices and specifications about the quality of crude. Under the refinery agreements the companies are required to import crude at the most competitive prices, but every time the question of adjusting import prices to the prevailing market conditions arises, there is a prolonged tussle between Government and the companies before a settlement is reached. These tussles have become a recurrent feature; every price settlement is *ad hoc* and the possibility of another confrontation is always present.

The problem is not confined to the three international oil companies; it extends to the arrangements which have been made for supply of crude to the public sector refineries which depend on imported crude. These are the refineries at Cochin, Madras and Haldia. The Oil Prices Committee had severely criticised the present arrangements for supply of crude to these refineries. The major criticism was that the arrangements prevented us from taking full advantage of the global falling trend in crude oil prices.

Similarly, lack of experience and knowledge of the intricacies of the oil business led the Oil and Natural Gas Commission to accept terms and obligations for its offshore exploration venture in Iran which are far from satis-

factory. The project, in which the ONGC has two foreign companies as partners, has been a commendable success from the point of view of drilling and production of oil. But the ONGC is now finding it difficult to market its share of crude either in India or abroad. In addition, it had accepted the obligation to find markets for the Iranian share of the crude from this field and that too at a price which the crude simply will not fetch in the prevailing world market conditions. The Iranians are not likely to budge from their advantageous position, just as they did not when India raised the question of revising the agreement for supply of crude to the Madras refinery in which no provision had been made for adjusting prices according to market conditions even though we were committed to importing crude from Iran for as long as 22 years.

The international oil companies know that our dependence on imported crude will continue to grow in the years to come. So the attempt to get them to accept any change in the present arrangement under which they are free to import crude from sources of their choice is likely to prove infructuous, as similar attempts in the past have, unless Government is able to settle the overall question of import of crude for processing in all the refineries, private as well as public sector. Once Government demonstrates its ability to make alternative arrangements for crude imports to meet the country's entire refining requirements, the very basis of the existing refinery agreements will be knocked out and the bargaining position of the international oil companies will be weakened. The Oil Prices Committee had dealt with this key issue and had proposed the setting up of a single agency to handle all import of crude oil by inviting competitive bids. However, Government has yet to take a decision on this key recommendation of the Committee even though, as stated above, the negotiations with the oil companies for revision of the refinery agreements cannot make much headway unless the problem of making alternative arrangements for crude imports is tackled simultaneously. The isolated, *ad hoc* attempts to import crude through the Indian Oil Corporation is really no answer to the problem.

The prevailing conditions in the international oil market, particularly the West Asian oil market which is bound to be the main source of supply for India, are quite propitious for making

alternative arrangements for crude supply. The growth of national oil companies in all the oil-producing countries of West Asia, their anxiety to establish direct links with consumers so as to cut out the ramifications of the international oil companies, and the nationalisation of the operations of some of the international oil companies in some of these countries open out excellent prospects for making long-term arrangements for import of crude. India should be able to enter into direct deals with the national oil companies in these countries as a bulk consumer and end the present system under which the international oil companies act as intermediaries for imports from these same sources.

EXPLORATION PLANS STALLED

Apropos the crude oil shortage, the expectation that indigenous production will rise to 12 million tonnes by 1975 is, it now seems, unlikely to be fulfilled.

Cancer of Economism

(From a Correspondent)

THE creation of yet another central trade union organisation — the Centre of Indian Trade Unions (CITU) — by the CPI(M), through a division in the AITUC, merely extends the proliferation of rival factions in the Indian labour movement. In the past, splits in the Indian trade union movement were sparked off by pulls in different directions by diverse political interests. True, the growth and organisation of trade unions have been aided and abetted by interested political parties, but ironically their activities have not been political and their aims have been immediate economic ones. Transformation of the political and social order has rarely informed their actions and, even today, trade union activities are caught in the rut of economism.

The same lack of political and philosophical orientation characterises the latest split in the AITUC. The split has not occurred over basic philosophical differences as to whether or not to use collective bargaining, to accept the labour code, or to plan for direct action, but rather over matters of organisational control. The long controversy, which dragged on for months between the CPI(M) and the CPI trade union leaders, concerned the recognition of

The Gujarat oilfields are not likely to even maintain their current rate of production after some time unless the reserves are replenished by fresh oil strikes. The Assam fields too are not showing the results which were once expected. Meanwhile, exploration in what is possibly the most promising location, the Gulf of Cambay, appears to have run into serious difficulties. The exploration of the shallow waters undertaken by ONGC has failed to keep to schedule, though it must be conceded that the difficulties which have cropped up are inherent in an undertaking of this kind. The arrangements for exploring the deeper waters with the help of the Japanese have also not made much headway. It appears that the design offered by the American Offshore Company of the drill, which was to be operated by Mitsubishi of Japan, has not been found entirely satisfactory. As a result it might take much longer before the drilling arrangements can be finalised.

Marxist-controlled rival unions. Even now, although the Marxist Communist Party has pledged to politicise the working class through the CITU, the tendency to overemphasise economism remains. The inconsistency was evident in a speech made by B T Ranadive at the Kerala Trade Union Conference some time ago. He alleged that the leadership of the INTUC, Hind Mazdoor Sabha, and the AITUC had sought to "dull the consciousness of the workers, seen to it that the trade union struggle remains confined to only economic demands, ... divested the trade union movement of another basic principle — its international solidarity and outlook". Yet when it came to listing the demands of the working class movement under his own party's leadership, Ranadive could only refer to "struggles for wages, for jobs, for better living conditions ... for adequate DA and bonus" (*People's Democracy*, May 24, 1970). As for political consciousness of the Communist unions, the Communist-controlled unions of Tata Mercedes and Indian Oxygen have done little to stop the flow of Indian lorries and gas cylinders to South Vietnam.

Militant, job-protective, wage-increasing, and 'apolitical' unionism, which is

the hall-mark of the trade union movement in our country, has two inherent dangers. First, it is bound to create a few islands of relative affluence among the working class, without genuine links with the less fortunate mass of the unskilled members of the class. In fact, a highly privileged section is already evident among the skilled workers of public sector steel plants in India. Direct negotiations with the employers, and State intervention, have helped them to increase their income, and earn benefits like housing, subsidised food, and medical services among other things. These workers then are relatively secure and prosperous compared to the vast majority of their fellow workers. Since only 15 per cent of the total population are wage-earners and of these only 3 per cent are engaged in manufacturing industries, the privileged coterie among them must indeed be a very marginal number.

PIOUS RESOLUTIONS

Secondly, in a developing economy struggling to grow, a trade union movement oriented purely towards economism is soon bound to reach saturation point. Economism can expect a successful future in an economy that is both firmly based and expanding, in countries which have a large internal market and a protected external market.

But in India, with its repeated balance-of-payments problems, labour organisations will soon be under pressure from employers and Government to agree to wages which will protect the export potential. Immediate benefits, in terms of housing and other facilities, are therefore likely to have a stabilising effect only in the short run.

It may be growing awareness of these dangers, that has made the Leftist trade union movement, in the past few years, contemplate the problem of combining the struggle for wage increases with politicisation of the workers. In practice, however, these pious resolutions and pledges have come to nought. Acceptance of the principle of collective bargaining and of the other premises of a capitalist society, often lands Leftist unions into embarrassing situations. Balchandra Menon of the CPI, for instance, was party to a National Labour Commission Study Group report which attributed the reason for unhealthy industrial relations to "failure of police effectively to put down actions of violence and harassment of management staff". Another CPI member of a different Study Group, G Sundaram, signed a report demanding ban on strikes in the fertiliser industry. The CPI(M) is no different. For all its principled opposition to rationalisation, in a recent industrial dispute, it thought it

worth accepting the benefits of rationalisation in exchange for extra workload on the workers. The agreement between the Birla Jute Manufacturing and the CPI(M)-led union, signed on January 1, 1969, says: "It is agreed in principle that, wherever possible, the workmen shall shoulder increased workload, provided they are given the benefits of rationalisation agreed to between the parties."

Thus no one, in control of any important sector of labour strength, is explicitly advocating any basic changes in power and property relations, as a necessary first step in — and not merely as an implicit concomitant to — the recognition of labour's demands. The difference between the CPI and the CPI(M), as far as trade unionism is concerned, is consequently at best one of tactics. While the CPI(M) engages in more aggressive bargaining, the CPI follows a more conciliatory line.

NAXALITE POSITION

As a reaction against the tendency to be overwhelmed by economic and collective bargaining, the Naxalites or the CPI(ML) seek to eschew trade unionism altogether. "The task in India today is to build a secret revolutionary party organisation, not mass fronts" (Charu Mazumdar). The Naxalite leader's abhorrence of trade unions stems

from his desire to concentrate on the more dispossessed rural proletariat and from the experience till now of the trade union movement under parliamentary Communist leadership. It is perhaps the dangers of creating an economically far-better-off and favoured working class elite — neglecting political propaganda and overemphasising economic demands — that are driving the CPI(ML) to the opposite extreme.

While it would be foolish not to take advantage of those very rights — such as the right to form a union or to bargain for more wages — with which the ruling class seeks to assuage the feelings of the working class, it is necessary

at the same time for a trade union movement to impress on the masses of workers that more wages cannot solve problems that stem from the very nature and structure of owner-labour relations. Running around in the circle defined by capitalism, getting a few additional rupees here and there for particular sections of the working class, cannot be the goal of a socialist trade union movement. As Walter Linder, an Australian trade unionist has said: "Trade union struggles are necessary to educate the workers. What is wrong is to stop at that stage, limiting ourselves always to trade union struggles" (*Vanguard*, July 3, 1969).

THE FOURTH ESTATE

Areas of Inconvenience

Nireekshak

POLITICIANS in search of power are altogether a different species from politicians in power. While the former are inclined to seek the patronage of the Press and are prone, therefore, to regard the reporter and the editor as allies, the politician who has arrived often emerges as a self-appointed mentor of the Press, making demands on it far in excess of its own obligations. And if not satisfied, the politician in office is not unknown to have used the coercive powers of government to intimidate or disable a non-conforming newspaper.

There is admittedly an element of 'human weakness' in these attitudes, and the journalist is no less human than the politician, yet when the private relationship between a politician and a journalist tends to impinge and distort the larger relationship between Government and the Press it is necessary to take stock; it is far too dangerous a development to be explained away by reference to human weakness. How dangerous can be gauged from some of the remarks that Charan Singh made in the Uttar Pradesh Vidhan Sabha (June 25) in defence of his decision to stop Government advertisements to *Times of India* and *Nachharat Times*.

MALICIOUS?

The Chief Minister's case is that the newspapers concerned, or more particularly the Lucknow correspondents of the newspapers, have been guilty of "distorting news and reporting developments in the State with prejudice and malice against the administration and

some personalities connected with it". Yet when asked to identify the malicious reports in question, he chose to be evasive. What is more, he proceeded to lay down the dictum that when "newspapers indulged consistently in malicious propaganda against the Government, advertisements could be stopped".

Maliciousness, certainly, is not an article of the journalist's faith and no responsible journalist will defend it if it occurs, as of course it may, in reporting or comment. But maliciousness, like obscenity, is difficult to define. In any case, Charan Singh might have been more convincing if he had also tried to show that what he regarded as maliciousness was not entirely a subjective assessment of his own but had also some identifiable objective overtones.

That he had been unable to carry conviction to his own colleague and Information Minister, Genda Singh, is now clear enough as he has finally decided to accept Genda Singh's resignation. The Information Minister's resignation on the specific issue of the stoppage of advertisements to the two concerned newspapers, though somewhat muddled because of his own earlier defence of the Chief Minister's decision, is probably the first instance of a minister surrendering office to uphold, at least indirectly, some aspects of freedom of the Press. This also makes the Government's decision more indefensible than it might otherwise have been.

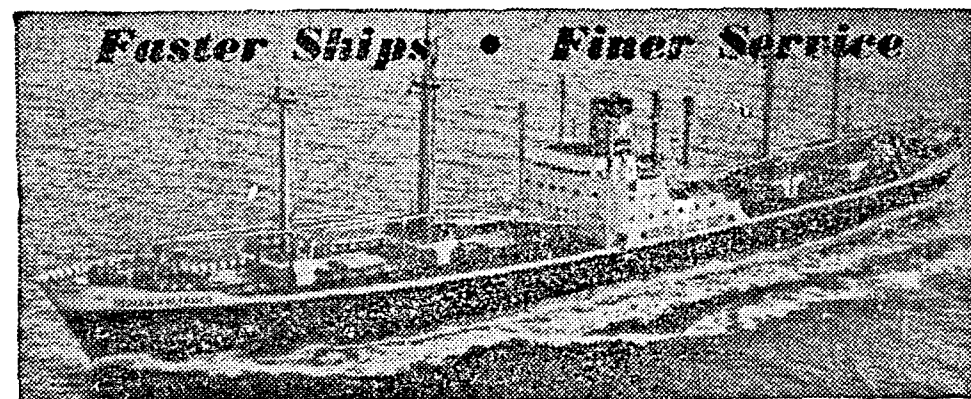
What makes the decision totally arbitrary, if not indeed malicious, is however the fact that it was taken only three days after the Chief Minister assumed office. It could not be argued that the decision had been pending from the previous administration, for the Chief Minister admits that the person "in the administration" against whom the accused newspapers had been carrying on an allegedly malicious propaganda is himself. "Human weakness", to which Charan Singh pleaded, is in such circumstances a poor alibi for administrative high-handedness.

For the rest, the incident highlights once again the absence of an accepted code for regulating the placement of Government advertisements in newspapers. It is not a question of whether a particular newspaper can afford to forgo Government advertisements when stopped or withdrawn in this fashion and still retain its independence; the question is one of dissuading Governments from utilising public funds to coerce newspapers into political conformity or otherwise to influence newspaper reporting and comment. As in the case of *Tribune* recently, this too is a fit case for inquiry by the Press Council.

WAKING UP — AT LAST!

The Press too, on its part, seems at last to be waking up to the dangers to which it is being increasingly exposed by constituted authorities. *Hindu*, for example, has drawn attention to some of these dangers. In a lengthy editorial entitled "Pressures on the Press" (June 14), *Hindu* wrote that Genda Singh's resignation "throws light on the pressures which the press in India has to face in the discharge of its responsibilities". After referring to the stoppage of advertisements to *Tribune* by the Haryana Government, and to *Patriot* and *National Herald* by the Delhi Municipal Corporation, the paper said that what distinguished the "UP affair" from the rest was that it had been "officially acknowledged that the [UP] Government had taken that step because it did not like some articles published in the newspapers concerned".

The paper went on to say that "people in positions of power have now and again held out veiled threats of curbing the Press if it did not 'behave'". The very fact that Inder Gujral sees it necessary to state on every conceivable occasion that the Government has no intention to restrict press freedom



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makes one wonder if the lady is not protesting too much". Further "it is unfortunate" said *Hindu* "that at this critical time when it is being subjected to various kinds of pressures overt and covert, the Press cannot present a united front against the forces out to muzzle it... These pressures can be successfully resisted and freedom of the Press preserved only if all sections of the Press present a joint front against the common danger".

Earlier in the month (June 7), *Hindustan Times* too had invited editorial attention to "pressures on the press". "Never since India became independent has the Press been faced with graver responsibilities... yet never have more obstacles been placed in the path of news media that have tried to fulfil this responsibility", it wrote. The RSS attack on *National Herald's* chief photographer, the cases of *Tribune*, *Times of India* and *Nabharat Times* were all referred to as "indices of the rising level of political intolerance of Press criticism". Also, "Governments that are unstable are the worst offenders, for they are most vulnerable to criticism. Small newspapers are less able to withstand pressure though many of them have fought gallantly to uphold the freedom of the Press". The performance of the Press, unlike that of the politician, the paper said, "is open to public inspection every day. This is an essential factor to be borne in mind by the public in assessing the role of the Press in relation to the ruling coalitions and the incipient fascists within the gates".

Another aspect of official interference with Press freedom, in this case denial of information, has also been referred to by two newspapers. The issue concerns the Union Government's decision to ban the circulation of transcripts of all broadcasts, including monitored versions of foreign broadcasts, hitherto made available to MPs and journalists by All-India Radio. In the view of *Statesman* (June 25) the ban has a direct bearing on public and Press criticism of the broadcasts over Radio Peace and Progress. "Since the radio's critical comments on Indian affairs, often offensive to national sentiment, are an embarrassment to the External Affairs Ministry, it has taken refuge in denying opinion-formers a facility which is properly to be regarded as a right and not a privilege", it said. "The prohibition is impossible to reconcile with the principle of a free flow of ideas and information" and

"since there is a wide area of inconvenience from which Mrs Gandhi's Government currently suffers there can be few limits to the prohibitory orders on which New Delhi can depend to keep the nation in relative ignorance."

Searchlight thought (June 25) the transcripts were "being distributed more as a patronage" to a few than

anything else. Yet, "the more important question is whether the Government can claim the right to determine what the public should know and whether the Government of the day can lawfully withdraw from circulation reports merely on the ground that it wants to avoid being criticised by the Press and Parliament!"

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REVIEWS

The Rich Peasant, Our Ally

Ekalavya

The Indian Revolution: Review and Perspectives by Mohit Sen; People's Publishing House; 1970; pp 83; Rs. 1.50.

THIS little book—it is the text of a lecture delivered by the author at K M College, Delhi—by one of the more thoughtful leaders of the Communist Party of India may be taken to present in summary form CPI's thinking on the political situation in the country.

The first part of the book is largely an assessment of the CPI's role in what the author calls the first stage of the Indian revolution, the freedom struggle. Mohit Sen claims for the CPI some sterling contributions to the struggle: it was the first to advocate complete independence from British rule as the national goal; it linked the anti-imperialist and anti-feudal tasks of the freedom struggle and gave the slogan of "land to the tiller"; the communists were also the first to extend the international linkages of the freedom struggle; not only making clear to the Indian people the place of their struggle in the worldwide anti-imperialist front but also explaining to the workers and other socialist forces in imperialist countries the significance of India's freedom struggle; further, the CPI was responsible for inculcating ideas of scientific socialism among the working classes and the radical intelligentsia at a time when the word "socialism" was hardly known; and, finally, communists presented to Indian youth a model of self-sacrifice and daring in the pursuit of an ideal.

ERRORS OF JUDGMENT

However, if the contribution of the communists had been indeed so significant, why was their impact on the freedom struggle so small and why was it that when freedom came they were, relatively speaking, such a minor force? Mohit Sen advances three reasons for this. First, the capitalist class in India was far more developed and had acquired an industrial base far stronger than its counterpart in any colonial or semi-colonial country. Second, communists were subjected to harsher persecution by the British rulers than was any other organised political group in the country. And, finally, there were the CPI's own errors of judgment.

The author refers to four principal errors: the failure to appreciate that the Indian capitalist class, while prone to compromise with imperialism on occasions, was on the whole a part of the anti-imperialist camp; the inability, arising out of the CPI's too bipolar class analysis, to understand the character and role of the intermediate classes and strata; the mistaken assumption that the hegemony of the proletariat was absolutely essential for the formation of the anti-imperialist and anti-feudal united front; and, finally, the view that such forms of struggle as satyagraha, hartals, fasts and the like, which had become very popular among the masses, were necessarily reformist and anti-revolutionary.

STUPID SLANDER?

In passing, it is interesting to note that while Mohit Sen reacts violently to the "rather stupid slander" of the CPI "being a formation of foreign agents", by implication he attributes much of the blame for the CPI's basic errors of judgment to wrong guidance received from the international communist movement after Stalin's rise to power. In fact, the poor CPI had to wait till the Twentieth Congress of the Communist Party of the Soviet Union in 1956 to get some of its "strategic misconceptions" sorted out for it!

Since about the beginning of the sixties the CPI's political line has been marked by the determination to avoid the "errors" of the freedom struggle period. This is what the second part of the book is largely about. Mohit Sen is convinced about the possibility—if not the inevitability—of peaceful transition as the form of the Indian revolution. This conviction is based on a number of factors. First, the balance of forces on a world scale makes the export of counter-revolution more difficult today than was the case at the time of the Soviet and Chinese revolutions. Second, the existence of the parliamentary democratic form of government makes it possible for the national democratic forces to establish footholds of power in different States before "the storming of the central citadel of power".

Most important of all, however, is the possibility of splitting the ruling class.

Following familiar Marxist analyses of the political-economic situation in the country (cf, E M S Namboodiripad's "Economics and Politics of India's Socialist Pattern"), Mohit Sen distinguishes between monopoly capitalists and the non-monopolist national bourgeoisie. In the agricultural sector he makes a similar distinction between the landlord and the rich peasant. The thesis of peaceful transition is based on the assumption that, for mounting the assault on the existing state power, it is possible to form a national democratic alliance which will include, in the rural areas, besides the rural proletariat, not only the middle peasant but also the rich peasant and, in the urban areas, the non-monopolist national bourgeoisie apart from the working class. Mohit Sen finds "a novel element" in the Indian situation—the fact that while the non-monopoly stratum of the bourgeoisie is part of the present ruling class, it is also a component of the national democratic front which seeks to overthrow the present state power and replace it by the national democratic state.

It is indeed axiomatic that so massive a combination of forces as consisting of the vast mass of agricultural labour, the small, medium and rich peasants, the urban proletariat and the non-monopolist national bourgeoisie will be able to overwhelm an opposition consisting essentially of landlords and the monopoly capitalists. This is obvious enough. Obvious enough are also the defects of this schematic presentation which render it of doubtful value from the standpoint of practical political action.

PROBLEM OF IDENTIFICATION

There is, first, the problem of identification. Who are the "landlords" and what distinguishes them from the "rich peasants"? Is it their origins in the old feudal system, or the size of their holdings or their use of mechanical power or their market-orientation? Similarly, who are the "monopoly capitalists"? After R K Hazari's painstaking research work, it has become commonplace to talk of the large business houses (Mohit Sen refers to "75 monopoly houses controlled by some fifteen or twenty monopoly families"). But what are the characteristics of the "monopoly capitalists" which are not

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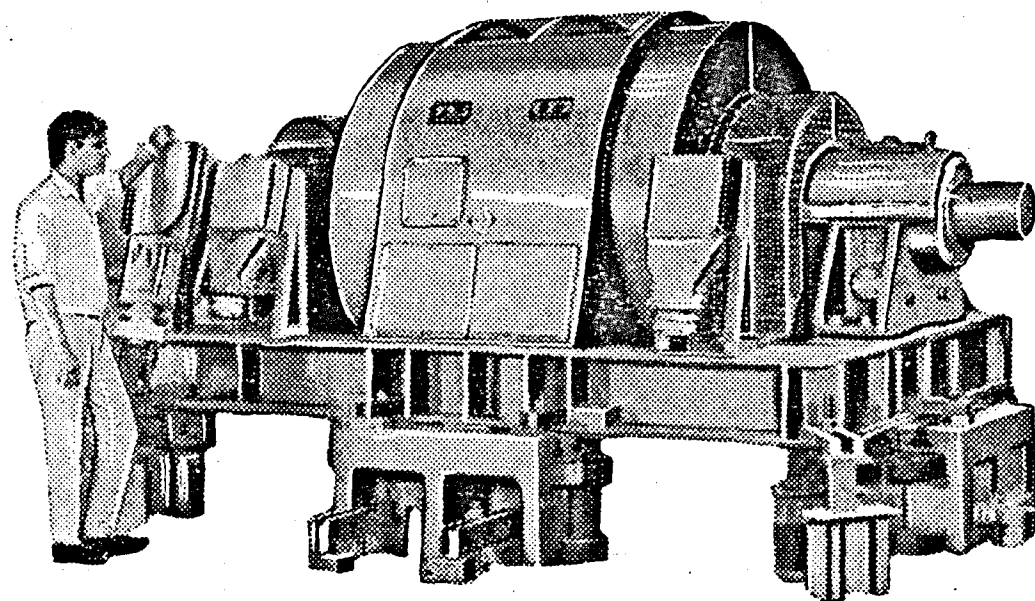
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shared by the other capitalists? Is it only their size? Or is it that they have a stake in foreign collaboration while the others have not? Or, again, is it that they take a certain view of state intervention in the economy not shared by the non-monopoly capitalists?

This kind of free use of ill-defined categories like "landlords" and "monopoly capitalists" vitiates all Marxist analysis of Indian society as well as, naturally, all programmatic conclusions that flow from such analysis.

However, even if this problem is momentarily ignored, how is the grand alliance, the national democratic front, to be brought about? What is the community of interest between the rich peasant and the landless labour or the non-monopoly capitalist and the industrial proletariat? Why should the rich peasant and the non-monopolist national bourgeoisie, who already enjoy a large slice of state power, take on such obviously dangerous partners as landless agricultural labour or the urban proletariat? It is far more likely that in chasing the chimera of the national

democratic front, the communists—supposedly the vanguard of the industrial workers and the peasant masses—might end up by delivering themselves bound hand and feet to the so-called non-monopoly national bourgeoisie, to be pounced upon and finished off when the time comes. This is precisely what happened in Indonesia. Sukarno's NASAKOM was for the late Comrade Aidit the equivalent of the CPI's national democratic front.

True, Mohit Sen would develop "sweeping mass struggles and actions" even as the objective of the national democratic front is pursued. However, pursuit of the latter objective is in practice likely to set rather narrow limits to the communists' ability to organise "mass struggles and actions". Instead we might have the "vanguard of the masses" expending its energies, as in fact it does all too often, over causes like lowering of irrigation rates or abolition of the wealth tax on agriculture or inclusion of a few villages in this State or that—all in the interest of building up the national democratic front.

'The Near North'

B Ramesh Babu

The Australian-American Alliance: Costs and Benefits by H G Gelber; Penguin Books, England; 1968; pp 160.

BEFORE the Second World War, Australia's ties (emotional, cultural, and economic) were almost exclusively with Great Britain. Economic, political and defence links with the mother country constituted the whole basis of Australian policy. Australia began to come under the growing influence of America during the War. After 1941 the United States assumed the role of its chief protector. Today the American alliance is the main axis of Australia's defence and security. This fact has been one of the chief determinants of Australia's foreign policy as a whole. In recent years these links have grown in many ways.

Since 1945 Australia has also felt the need to develop relations with Asia in its own right. In the decade since 1945 Australia's trade and economic ties with Asia multiplied. But it is only in the 1960s that Australia began to fully appreciate the geographical reality that her neighbours are the newly independent nations of south-east Asia and the Pacific. The scheduled British withdrawal from East of Suez and the American policy in the region quickened this new awareness. Australia began

to refer to her Asian neighbours as countries of the Near North.

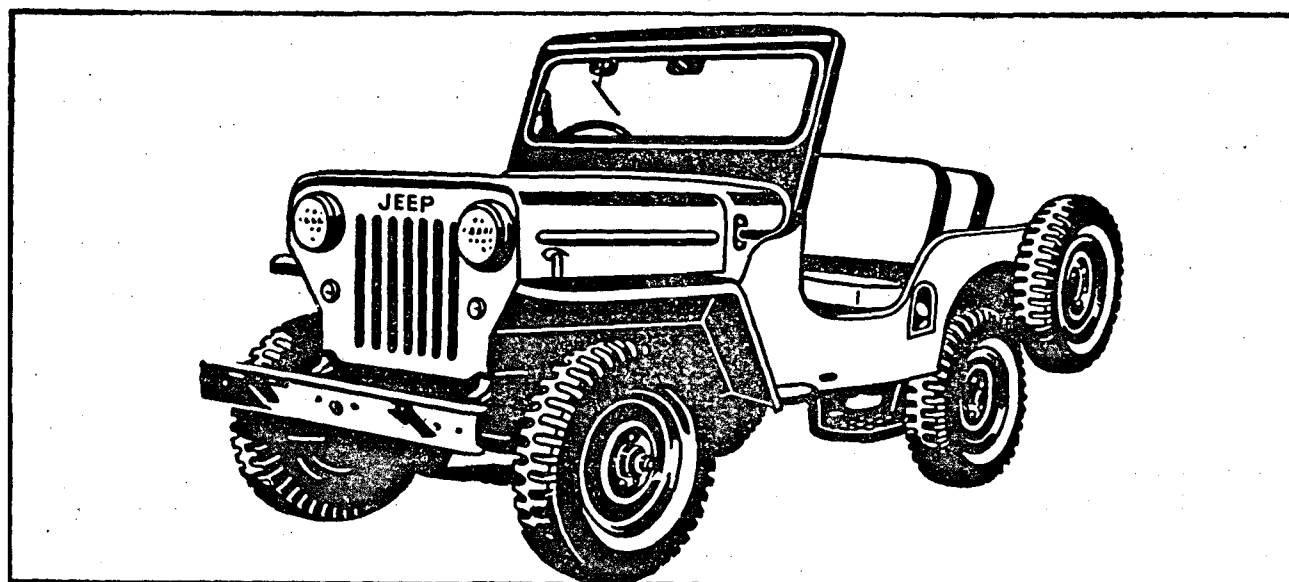
To make her role in Asia and her membership of the Western Alliance system (and the Western community) mutually complementary, or at least not mutually contradictory, is, according to Gelber, the supreme objective of Australia's foreign policy. It is also the criterion of success of the country's exertions in the realm of international politics. Whether one considers its Asian policies, or its links with the West, the American alliance remains of crucial significance. In what Gelber calls the "security concern" of Australia, the American alliance is considered the "mailed fist" of the nation's forward defence. Australia expects that America will come to its rescue in case of actual aggression and violation of its territorial integrity. It also hopes that the alliance, with the US will ensure security from the bases or areas from which an attack might be launched against her, keep the sea lanes of communication and trade free and open, and firm up the general balance of power in the area so as to maintain a mood that is sympathetic to Western interests.

The American alliance has its costs too, Gelber points out. Australia's vulnerability is increased in direct consequence. America's enemies who might otherwise be indifferent to Australia may become hostile. As a small ally of a global power, Australia has no control over a great many operations of the alliance. Clearly Australia cannot hope to exert more than peripheral influence on the crucial American decisions which are reached by America on the basis of its worldwide interests and commitments and within a global perspective. Moreover, the stockpiling of arms and the establishment of bases on the Australian mainland upgrade Australia as a target. Another incidental, if not entirely inevitable, consequence of the special tie with the US has been the increasing American control of its industry, especially in oil refining; automobile manufacture; iron ore, lead and zinc; chemicals and overseas shipping.

Recently, some second thoughts have emerged in some quarters in Australia. From its inception the American alliance has been overwhelmingly popular with the Australian people. Voices of dissent heard today are really echoes of the Vietnam involvement. And these too are as yet weak and unimportant. In August last year it seemed that a reappraisal of the nation's foreign and security policies was in the wings. Gordon Freeth, then Foreign Minister, made a policy statement in the Australian Parliament suggesting that, every time a Soviet ship is sighted in the Indian Ocean people need not feel threatened. He held that it was time Australia recognised the changing realities of Asian and world politics. Not that the ruling Liberal party today is unaware of the changing international environment. The real reasons must be sought in the domestic party politics. The Liberal party needs the second preference votes of the right-wing Democratic Labour Party. The inescapable price of such support is the renouncing of the Freeth line and a return to the old policies.

What are the real alternatives to Australia's traditional defence and foreign policies? asks Gelber. Could Australia opt for an alternative alignment or choose neutrality. Could Australia denounce the alliance? On specific issues diverse courses of action may be commended. But Gelber asserts that there is no viable alternative policy framework before the Australian nation. Looking into the possibilities of that really is a challenge to the Australian political scientists and specialists on international politics.

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Modernisation of the Rice Milling Industry

Lessons from Past Performance

Uma J Lele

This paper discusses the factors that determine the efficiency of the rice milling industry. It examines the performance of the traditional rice milling industry during a recent period of free trade and shows that the spread between prices of rice and paddy was well above technologically determined milling margins. There were, besides, considerable year-to-year fluctuations in the utilisation of the effective rice milling capacity.

The author contends that the traditional rice milling industry has not operated efficiently. This can be attributed to various Government policies that inhibited efficient operation through their effects on choice of technology, on competition and on capacity utilisation. Government policies have encouraged expansion of antiquated hullers and discouraged modernisation, thus raising milling costs and affecting output. Not only have Government policies not enhanced competition but they have reduced utilisation of effective capacity through instability of price movements.

The following policies seem desirable for efficient performance of the rice milling industry.

First, a favourable atmosphere needs to be created which would encourage private investment in technologically superior milling equipment.

Second, the need for extension of technical knowledge ought to be recognised and a positive programme adopted for making millers in the private sector aware of modern milling technology.

Third, credit should be made available to millers for modernising existing rice mills so as to foster competition between those who can raise their own capital and those who for lack of capital would fail to modernise.

Finally, a price policy which would stabilise off-seasonal price movements and market supplies from year to year would considerably reduce uncertainty in trading operations, thereby increasing utilisation of effective capacity and decreasing average costs and increasing competition.

CONSIDERABLE attention has centered on the question of modernisation of the rice milling industry in recent years. Upon the recommendation of a Ford Foundation team, the Food Department made a decision in July 1964 to set up seven imported modern rice mills as the first step towards modernisation. The Food Corporation of India subsequently undertook establishment of 25 Japanese modern rice mills financed by a yen credit. The Fourth Five-Year Plan proposals called for establishment of over 300 modern mills in the public and co-operative sectors. This is expected to create a capacity to mill 8.5 million tons of paddy out of the proposed increase of 20 million tons by the end of the Fourth Plan.

Three indigenous firms have entered into collaboration with two Japanese and a German firm for manufacturing modern rice milling machinery in India. The first indigenously manufactured milling machine has already come off the assembly lines. Although the role of the private sector in modernisation remained obscure in the initial stages, commercial banks have now been given directives to advance loans to private millers up to as much as 90 per cent of the cost of modernisation so as to accelerate replacement of traditional hullers and underdisc runners by rub-

ber roll shellers in the private sector.

Modernisation policies and programmes have thus made considerable strides. A rapid pace of modernisation and subsequent efficient operation of the rice milling industry is, however, not necessarily assured by the present policies and programmes.

This paper discusses the factors that determine efficiency of the rice milling industry. It then examines the performance of the traditional rice milling industry during a recent period of free trade in terms of the efficiency criteria outlined.

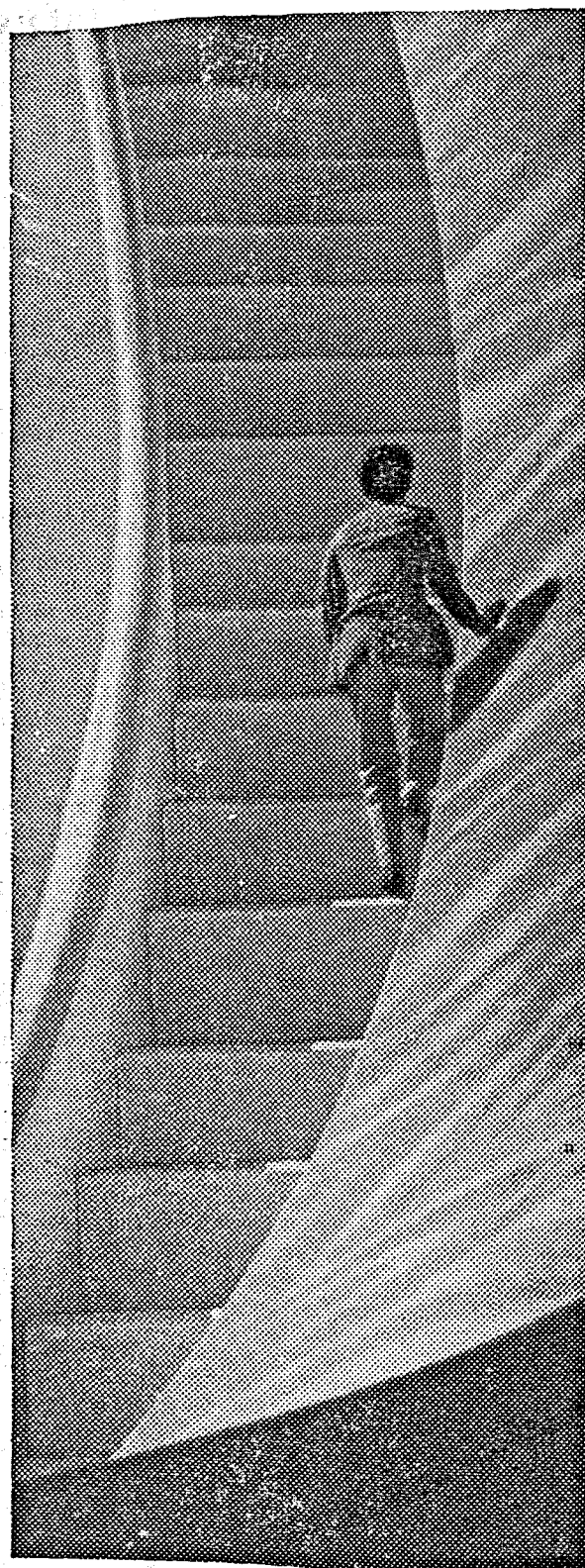
It is the contention of this paper that certain governmental policies have detracted from efficient operation of the rice milling industry through their effects on choice of technology, on competition and on capacity utilisation. The paper then discusses the implications of deficiencies in the industry's past performance and suggests Government policy measures which would lead to more effective meeting of social objectives on the part of the public and private sectors.

Factors Affecting Efficiency

Efficiency of the rice milling industry may be gauged in terms of three factors, technology, degree of competition and capacity utilisation. Technology

through its effect on costs of conversion and quantity and quality of rice and by-products produced affects the margin between paddy and rice prices. It thus determines the floor to the paddy rice margins. Less than full capacity utilisation raises costs and may widen margins. Degree of competition has a considerable effect on the margins over and above the technologically determined margins between paddy and rice prices. Thus, given a competitive framework and full capacity utilisation, paddy-rice margins will be almost completely determined by the milling technology. Technology, competition and capacity utilisation are, however, not mutually exclusive and almost always inter-act, thus complicating the problem of distinguishing the effects of one from the other. For example, technology may dictate the size of individual firms thus affecting degree of competition and capacity utilisation. On the other hand, governmental policies may enforce firm size which in turn may limit the choice of technology. However, even in a competitive industry capacity utilisation may vary considerably from one year to another thus affecting milling costs and hence margins.

In a perfectly competitive market, rice and paddy prices bear the following relationship.



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It must be emphasised at this point that relationship between paddy and rice prices may also be affected by movements over space and time, in which case transport, storage, and handling costs must be considered. We are isolating from these factors which have been analysed elsewhere and which show margins generally commensurate with costs.¹ Here we are strictly concerned with returns to milling as distinguished from those to shipping and storage.

We will briefly discuss the effect of these various components on paddy rice margins in general and then proceed to examine the actual behaviour of the paddy-rice prices during the period of free trade through the effect of these technological factors on general degree of competition, and capacity utilisation.

Milling outturn determines the paddy equivalent of rice. *Ceteris paribus*, the larger the milling outturn the smaller the price spread between rice and its paddy equivalent. The Central Food Technological Research Institute's findings show that in the case of parboiled rice, modern rice mills yield on an average 0.8 per cent more rice over under-disc runner shellers and 1.6 per cent over hullers. In the case of raw rice, the outturn in modern mills is 2.5 per cent higher than traditional shellers and 6.6 per cent higher than hullers.²

Prices of paddy, expected and actual, may considerably affect the quantities purchased and the timing of purchases. This in turn will affect capacity utilisation of rice mills. We will discuss the implications of price factors for capacity utilisation. We will also examine the effect of utilisation on milling costs in the short run and on allocation of capital to milling in the long run.

MILLING COSTS

Costs of milling paddy consist of the direct costs that vary with the quantities of paddy milled and the fixed costs. Both the direct variable costs and fixed costs vary considerably in different milling technologies. Fixed costs may, however, also vary between mills using the same technology.

Variable costs in traditional huller mills, excluding the costs of paddy itself, consist mostly of the labour required for parboiling, drying and moving paddy and for bagging rice. The data collected from selected modern rice mills and traditional huller mills point

out the significant difference in the labour intensity of the two milling technologies.³ The other variable costs such as fuel and electricity are much more substantial in modern mills due to greater automation.

Fixed costs consist of depreciation and maintenance, salaries of permanent employees, taxes, license fees and other establishment costs. Depreciation may vary considerably according to the age of the milling machinery even between two mills using the same technology. Due to the relatively higher capital intensity of the modern mills, depreciation constitutes a much more significant component in modern rice mills as compared to their traditional counterparts. This has important implications to unit fixed costs likely to ensue under the two technologies at different levels of capacity utilisation. Our data show a significant variation in unit fixed costs for different levels of capacity utilisation in modern rice mills. Other costs such as salaries of permanent employees are also higher and are likely to vary much more significantly at different levels of capacity utilisation in modern rice mills due to the higher management component. The absolute level of fixed costs and hence the variation according to capacity utilisation are relatively much less significant in traditional hullers.

VALUE OF BY-PRODUCTS

Value of by-products is determined by the quantity and quality of by-products produced by the different milling technologies. In the traditional huller bran is usually mixed with powdered husk and not separated. Millers sometimes sell this so called bran as cattle feed. They use the husk as fuel in mills. In modern rice mills, 4 per cent bran can be obtained in unadulterated form. The price of bran obtained from traditional hullers ranged from Rs 20.00 to Rs 30.00 per ton in 1969. The bran produced in modern rice mills fetched Rs 400 to Rs 450 per ton. By-products thus would have significant implications for size of margins in different technologies.

Central Food Technological Research Institute's evaluation indicates that for raw paddy, increases in head rice yield, defined as all grain of 3/4 size or larger, in the modern mills over sheller mills varied from 1.0 per cent to 12.4 per cent with an average increase of 6.1 per cent.⁴ As compared to huller mills, the corresponding increases varied from 6.5 per cent to 27.7 per cent with an average of 15.1 per cent.⁵ For parboiled paddy, the corresponding increases over sheller units varied from zero to 2.5 per cent with an average of

1.3 per cent. The increases over huller mills varied from 1.0 to 8.5 per cent with an average of 4.1 per cent.⁷ Rubber roll sheller mills are thus obviously much superior in quality of processing to traditional hullers and even to traditional shellers mills.

Considerable difference of opinion exists in India and other rice-consuming countries in Asia as to whether quality differences would gain significant price differentials. The underlying contention is that consumers in Asia do not show a marked preference for higher head rice content and that, in fact, in some cases, there is a special demand for broken rice for traditional preparations made out of such rice. Due to an absence of a free market in rice in India since establishment of modern rice mills little can be said about quality differentials in rice prices. Price differences due to quality should be distinguished from those due to varieties for which we have abundant evidence from the past.⁸ An interesting study made of the domestic rice market in the Philippines indicates that price differences due to quality are much smaller in the domestic market in the Philippines as compared to those in the international market.⁹

The excessive emphasis on improvement in physical characteristics of rice processed in modern mills has been mainly due to the importance given by American consultants in the initial stages in India and elsewhere in Asia to the appallingly poor quality of domestic processing when compared with the standards of the international trade. The point, no doubt, is particularly relevant in countries such as Pakistan that have been unable to compete in the international market due to poor processing methods. In the domestic markets of Asia, however, investment in modern mills seems much more justifiable on the grounds of increased outturn and improved by-products both of which by themselves provide enough economic justification for investment.¹⁰

Milling technology thus has different effects on the various components discussed above and hence may provide quite different levels of market margins that may be justified under competitive conditions.

Efficiency of Traditional Milling Industry

It is of interest to examine whether the rice milling industry operated efficiently when considered in terms of the milling margins set by the traditional technology. The actual spread between paddy and rice prices in Tamil

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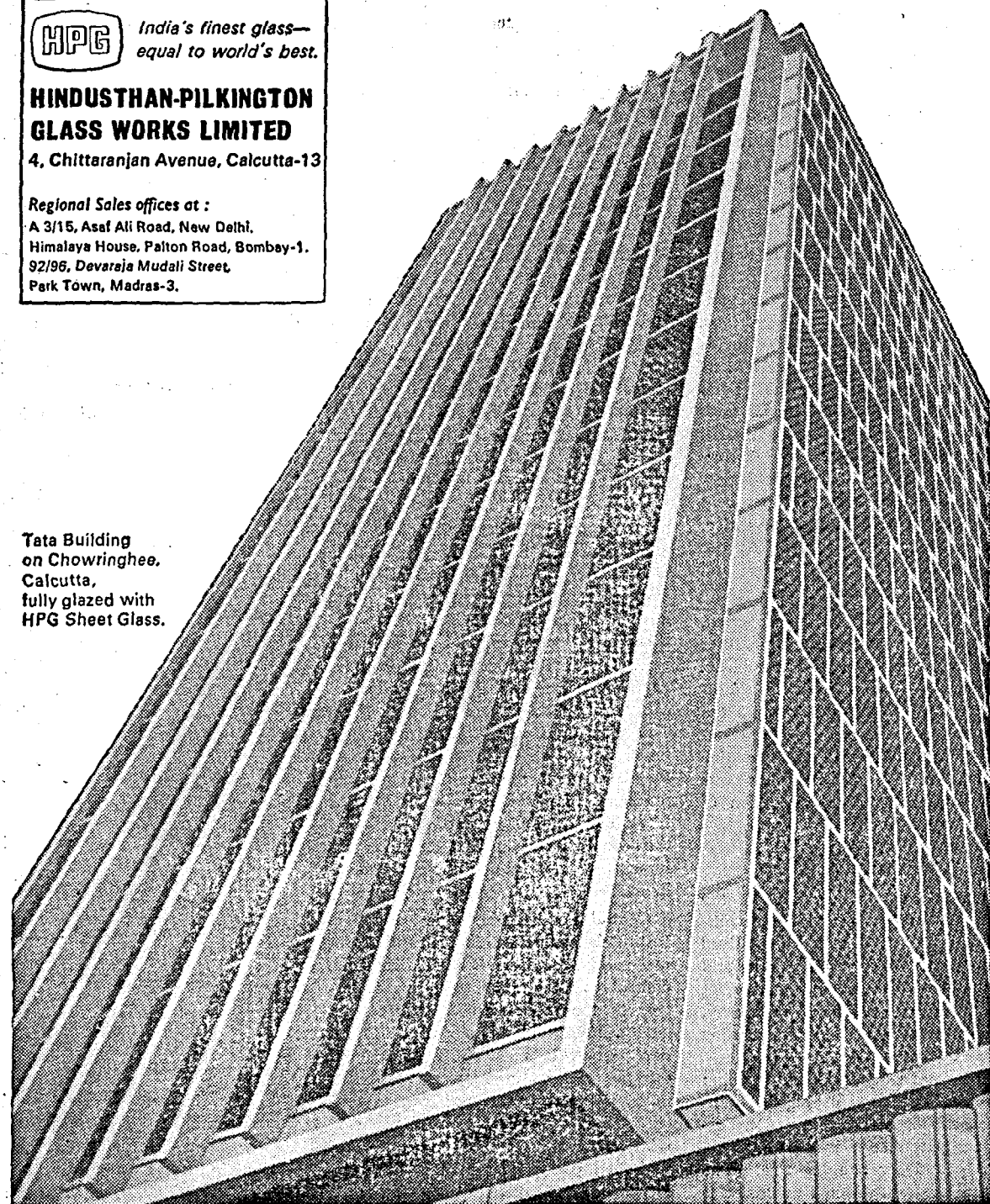
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Nadu and West Bengal during 1955-56 and 1963-64 are, therefore, compared below with the milling margins hypothesised to exist under conditions of traditional technology and perfect competition. The following assumptions are used for estimating the various components of milling margins.

For the comparison of rice and paddy prices, a ratio of 2:3 is used as the outturn of rice from parboiled paddy. This is in conformity with the outturn from parboiled paddy estimated in most standard government publications of the Central and State Governments and is consistent with the recent findings of the Central Food Technological Research Institute regarding milling outturns from parboiled paddy in huller mills.

In West Bengal all the paddy is parboiled before milling. In Tamil Nadu almost all the medium and coarse paddy is parboiled. A major portion of the fine paddy is also parboiled. Consumption of raw rice is usually reserved for special religious ceremonies and confined to some specific communities.

Since almost all the marketed surplus for this period was milled in traditional hullers, milling costs are considered only for huller mills. Existing secondary data on milling costs have several drawbacks. First, they are often outdated and refer to the pre-War and early post-War period. Second, they show considerable diversity in costs even for the same types of milling equipment. This is particularly true of data for West Bengal. Third, they show considerably higher milling costs for West Bengal than for other States. Since, secondary estimates almost never specify what components of costs are included, it is not known whether this is due to differences in definitions or whether costs are, in fact, so high.

Milling costs allowed by various State Governments under their procurement programmes also show considerably higher milling costs for West Bengal and probably are not indicative of the actual milling costs. Unlike Andhra Pradesh, Tamil Nadu and Maharashtra that allowed Rs 1.50 per quintal of paddy milled (i.e., Rs 2.25 per quintal of rice) as milling charges in 1967, the West Bengal Government allowed Rs 5.36 per quintal of rice. The Tamil Nadu Government subsequently reduced this to Rs 1.00 per quintal of paddy milled or Rs 1.50 per quintal of rice. The West Bengal Government also reduced the rate to Rs 4.70 per quintal of rice. In addition, both the governments pay for procurement costs, procurement commission and incidentals. In Tamil Nadu, the Government paid Rs 3.25 per quintal of rice to cover

these various charges. Thus the Government paid Rs 4.75 per quintal of rice delivered in Tamil Nadu. As against this the Food Corporation in West Bengal paid Rs 7.13 per quintal of rice delivered. In both the States extra payments were made for gunnies. These were more or less comparable with each other.¹¹

Because of the variation in costs shown by these other sources, we used milling data collected through our own surveys in Tamil Nadu and West Bengal. Our investigations show a remarkable degree of uniformity in the variable costs of milling in Tamil Nadu. The direct milling costs that consist of labour costs and costs of oil and fuel ranged between Rs 1.00 and Rs 2.00 per quintal of rice. Fixed costs vary somewhat more, due entirely to variation in the depreciation component. Our data for Tamil Nadu show average total cost of milling to be Rs 5.50 to Rs 6.00 per quintal of rice in 1969.¹²

In order to examine whether actual milling costs were in fact higher in West Bengal than in Tamil Nadu or whether some other elements caused milling costs to be so high, we also collected data on milling costs directly from selected rice mills of various sizes in West Bengal. Our data for West Bengal show that the direct costs of milling which include oil, fuel, electricity and salaries of temporary workers range between Rs 1.50 to Rs 4.00 per quintal of rice as against Rs 1.00 to Rs 2.00 in Tamil Nadu. On the contrary the fixed costs of operation defined to include depreciation, interest on block capital, insurance, maintenance and salaries of permanent employees, range only between Rs 1.00 to Rs 2.75 per quintal of rice.¹³ The average total milling costs per quintal of rice for 1968 show a range of Rs 2.70 to Rs 5.10 in West Bengal.¹⁴ The costs show no consistent variation according to the size of the plant.

The total milling costs per unit, therefore, do not seem to have been higher in West Bengal. It is, however, noteworthy that mills in West Bengal show considerable variation in variable costs of milling. Various reasons seem plausible. In 1968-69 mills were milling paddy for the West Bengal Government. Records of some mills show operations much below capacity. If the low level of operation was unexpected this must have affected the millers' hiring of labour and hence costs. However, a less generous view of the situation would suggest that some millers milled more paddy than their records indicate and assigned all

their variable costs only to the stocks submitted to the Government. Our data show that there was a substantial decline in the reported quantities of paddy milled by rice millers in West Bengal during periods of control while the supplies in fact found their way to the consuming markets, although in part through single hullers.

The third possible explanation for such a substantial variability in variable costs may be that some mills are simply more inefficient in their operations than others and do not really have to attempt to reduce their costs due to the high milling rate allowed by the State Government as compared to any other State in India. On the contrary, pressure from the millers for maintaining such high milling rate may be the result of such inefficiencies on part of some millers while the efficient millers reap profits from high milling rates. The fourth likely explanation is that due to controls other components such as bribes to Government officials, and heavy storage losses due to clandestine storages, which normally do not enter economic calculations, raise milling costs for some millers.

Whatever the reasons, our data from Tamil Nadu and West Bengal suggest that millers in West Bengal have been paid adequately to cover fixed and variable costs of processing. On the contrary, the Tamil Nadu Government obviously seems to have paid too little to its millers for milling when the official milling rates are compared with our milling cost estimates. Either policy is likely to encourage inefficiency. The case of high milling charges needs no further labouring. When milling rates are so low as in the case of Tamil Nadu, there is also likely to be a considerable pressure on millers to recover costs through devious means. It is of interest to know how well the actual spread between paddy and rice prices corresponded with milling costs in a free market.

On the basis of our total average milling cost of Rs 5.50 or 6.00 per quintal of rice for Tamil Nadu in 1969 we have assumed total milling cost to be Rs 5.00 per quintal of rice during 1955-56 to 1963-64. Although millers indicated that milling costs have nearly doubled since 1963 (see footnote 12), we have made a lesser discount, so as to allow for a reasonable return to the miller for his milling operations. There was no significant increase in milling costs from 1955-56 to 1963-64. Therefore, only a single estimate of Rs 5.00 is assumed to have been applicable to the whole period under consideration.

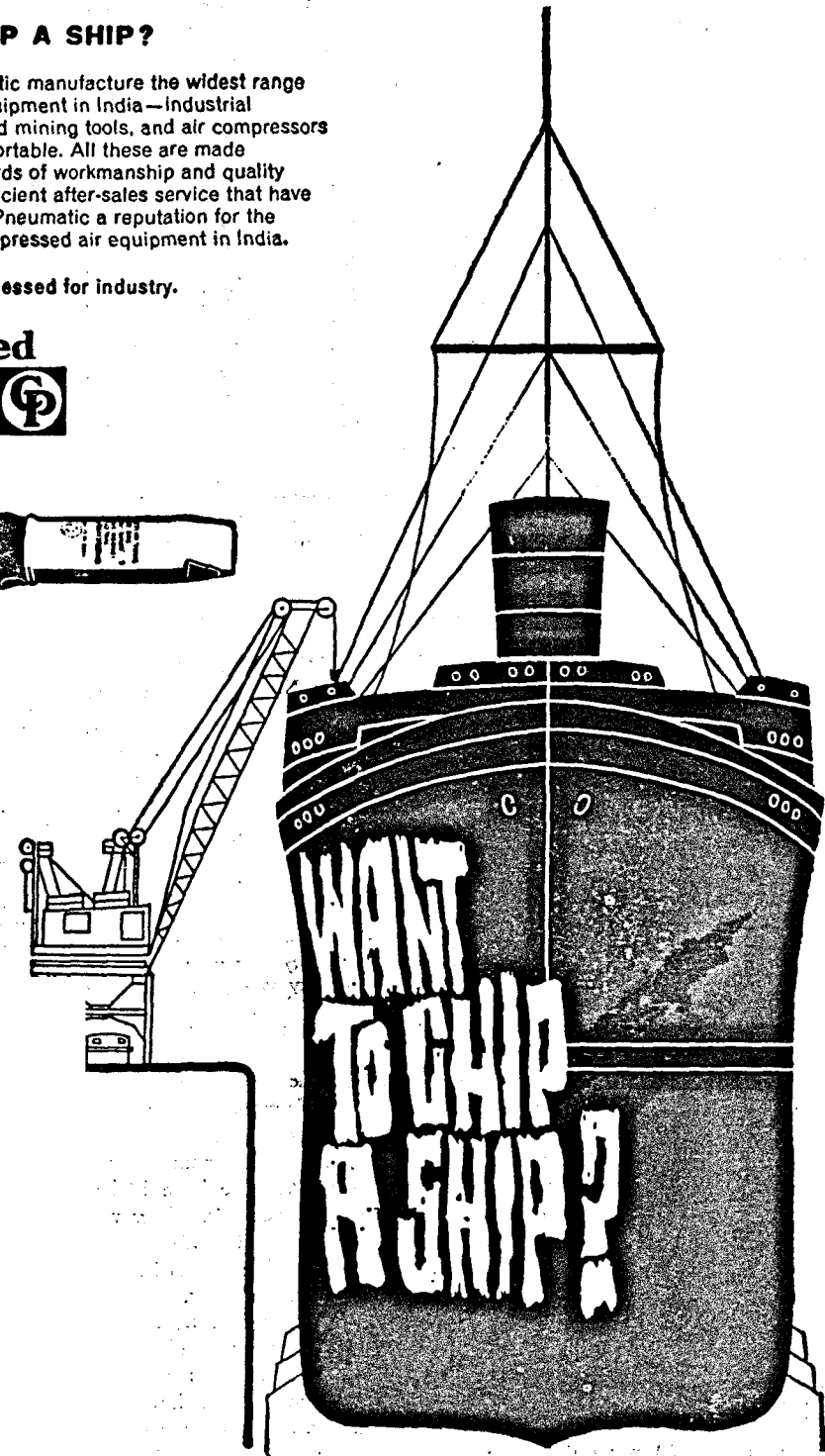
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in the quality of rice and value of by-products were ignored since our analysis is confined only to parboiled paddy milled in hullers.

Thus during the period of free trade, rice prices were expected to have been equal to 1.5 times the price of paddy +Rs 5.00.

Actual Margins between Paddy and Rice Prices in West Bengal and Tamil Nadu

Weekly wholesale prices of rice and of their paddy equivalents within single markets for the period 1955-56 to 1963-64 were compared in several primary markets in West Bengal and Tamil Nadu.¹⁵ In Kanchipuram out of 484 weeks, half the times the price difference was above Rs 5.00 per quintal of rice and as much as 28 per cent of the time above Rs 8 per quintal. In Tirunelveli price difference was above Rs 5.00 31 per cent of the time of which 7 per cent of the time it was above Rs 8.00. In Cuddalore the difference was 21 per cent of the time above Rs 5.00. In Tiruchirapalli the difference was above Rs 5.00 17 per cent of the time of which 5 per cent of the time above Rs 8.00. In Tiruvarur the difference was above Rs 5.00 only 11 per cent of the time, and in Mannargudi 8 per cent of the time.

The examination of the paddy-rice prices in West Bengal shows a much larger spread in the West Bengal markets than in Tamil Nadu. In Burdwan, the spread remained above Rs 5.00 88 per cent of the time of which it was above Rs 8.00 23 per cent of the time, in Guskara 87 per cent of the time of which 27 per cent above Rs 8.00, in Sainthia 77 per cent of which 33 per cent of the time above Rs 8.00 and in Bolpur 34 per cent of the time of which 8 per cent of the time above Rs 8.00. The evidence thus shows that the milling industry did not operate efficiently within the technological confines and that considerable scope existed for excess profits.¹⁶ The lower percentage in Bolpur may have been due to the poor transport facilities in Bolpur which probably kept rice prices depressed as compared to other nearby markets. The generally larger spread in West Bengal may partly have been due to the fact that paddy brought to the market usually has a much higher rate of refraction (i.e. dust and foreign matter) as compared to other States, where cultivators clean paddy before marketing it. This was consistently noted in discussions with procurement officials in West Bengal and Tamil

TABLE 1: NUMBER OF LICENSED RICE MILLS IN THE ORGANISED SECTOR AND ESTIMATES OF EFFECTIVE CAPACITY UTILISATION, WEST BENGAL, 1955-69

Year	No of Rice Mills	Estimated Effective Capacity of Rice Mills* (in rice)	Our Estimates of Quantities of Milled Rice**	Our Estimates of Utilisation of Effective Capacity (4 as Per Cent of 3)	Official Estimates of Quantities of Milled Rice	Official Estimates of Utilisation of Effective Capacity (6 as Per Cent of 3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		(000 metric tons)		(per cent)	(000 metric tons)	(per cent)
1955	360	900	765	85	NA	NA
1956	391	977	836	86	NA	NA
1957	425	1062	940	88	NA	NA
1958	446	1115	860	77	NA	NA
1959	467	1167	851	73	NA	NA
1960	494	1235	857	69	650	53
1961	497	1243	1067	86	810	65
1962	515	1288	963	75	790	61
1963	NA	NA	899	NA	710	NA
1964	NA	NA	1088	NA	700	NA
1965	711	1778	1126	63	510	29
1966	NA	NA	990	NA	450	NA
1967	729	1823	980	53	150	8
1968	741	1853	1005	NA	310	17
1969	742	1855	NA	NA	350	19

* Based on average 10 metric tons of milled rice per rice mill in a single shift of 8 hours and 250 days of running in a year.
** Calculated at 20 per cent of the State's production.

TABLE 2: NUMBER OF RICE MILLS EFFECTIVE INSTALLED CAPACITY AND CAPACITY UTILISATION TAMIL NADU, 1964 TO 1968

Year*	Number of Rice Mills				Million Metric Tons		
	Huller Type	Sheller Type	Combined Huller-Sheller Type	Total	Effective Installed Capacity**	Paddy Production	Per cent Utilisation of Effective Capacity
1964	8,636	15	110	8,761	6.97	6.00	86
1965	8,818	16	110	8,944	7.26	5.28	72
1966	8,972	14	111	9,097	6.73	5.70	85
1967	9,310	19	113	9,432	7.01	6.17	88
1968	10,000	69	100	10,169	8.89	5.84	66

* Installed capacity refers to calendar years 1964, 1965, ... etc.
** Installed capacity is estimated on the basis of a single 8-hour shift and 250 days of working.
Source: Department of Civil Supplies, Government of Tamil Nadu.

Nadu. However, the refraction rate is by no means adequate to explain such high margins. The larger spread in Bengal is also commensurate with the higher milling costs claimed to exist in West Bengal. These factors, however, do not completely explain the high market margins in the two States. A further examination of the operation of the rice milling industry during the period of free trade and after shows several interesting features of the competitiveness of the system that have a direct bearing on the level of margins between paddy-rice prices.

When rice mills are divided into the organised and the unorganised sector, data both for West Bengal and Tamil Nadu show that a major expansion of the rice milling industry was brought

about by an increase in single hullers. These have been most significant in replacing hand-pounding of paddy; used for domestic consumption but not in providing competition to the organised rice mills. This is borne out by the evidence on number of rice mills in the organised sector, their effective capacity and the quantities of paddy milled during the period under consideration. They indicate that utilisation of effective capacity in the organised sector was not as low as generally believed to be true (Tables 1 and 2).¹⁷ The data also suggest that there was no declining trend in the capacity utilisation of rice mills in the organised sector until 1965. The considerable year-to-year fluctuations in the capacity utilisation during 1955 and 1964 were due

to fluctuations in production which resulted in fluctuations in the marketed surplus. Various other factors may also explain the phenomenon of fluctuations in capacity utilisation. Among them behaviour of market prices seems to have been highly important.

PRICE STABILITY

In years of small crop it is, of course, not possible to operate mills at full effective capacity. However, even in normal years it may not be profitable to operate at capacity. Where there is only a single major harvest of paddy, cost of raw material increases due to the need for at least partial purchases in the off-season.¹⁸ The costs are particularly high in periods of sharp seasonal price increases. If purchases are restricted to the immediate post-harvest period, stocks required for the full capacity utilisation of a rice mill are indeed high and involve considerable working capital. When there is a general heavy build-up of stocks by the milling sector immediately after the harvest, prices in the off-season do not rise as sharply as otherwise even if production is low.

The evidence on the grain trade's operations strongly suggests that traders and millers avoid building up heavy stocks of grain in the immediate post-harvest period and depend considerably on a quick turnover of stocks for profits. This is due partly to the fact that they depend to a considerable extent on their own private sources for working capital. Even when millers desire to borrow funds for purchase of paddy, there are often considerable restrictions on the availability of bank credit and when credit is available millers have less flexibility in their operations as it is tied to the stocks of paddy. But a major factor further discouraging heavy build up of stocks in the immediate post-harvest period is the uncertainty of the seasonal price movements that often show excessively high seasonal margins in some years and low margins in others. Although average profit margins over a period of 8 to 10 years may not seem very low *ex post facto*, the year-to-year variability in the margins emphasises the high element of uncertainty implied in storage operations. A large build-up of stocks greatly raises the loss function in a situation of high uncertainty and discourages millers from such a commitment. Utilisation of milling capacity is even further discouraged by the Government's policies generally aimed at

curbing stocks as an anti-hoarding measure.

The seasonally low utilisation of milling capacity seems to have been even further reinforced in areas where technical restraints on parboiling during monsoons raise costs of carrying stocks beyond monsoons and further reduce effective capacity utilisation. The data from modern and traditional rice mills show that even when less than 50 per cent of the capacity is utilised variable costs including the price of paddy constitute as much as 96 per cent of the total operating costs, with the cost of raw material and interest itself being slightly over 90 per cent of the total. Variable costs would constitute an even higher per cent of the total costs with increase in the capacity utilisation. Where variable costs form such a major portion of total costs decline in average costs as a result of increases in capacity utilisation are insignificant and, therefore, do not provide an incentive for extending capacity utilisation.

This argument is supported by actual behaviour of millers as evidenced by data collected from private rice mills of various sizes in Birbhum and Burdwan districts in West Bengal. It is evident from the data that a close relationship exists between effective milling capacity and storage capacity. The data further show that storage capacity in these private mills never exceeded 60 per cent of the annual effective capacity. Further evidence on highly seasonal utilisation of capacity is provided by the estimates of monthly production of rice by organised rice mills in West Bengal during 1960 and 1967. It is noteworthy that data for the 8 years covering both free trade and Government procurement show a remarkable uniformity in the milling pattern except for a gradual increase in the seasonality of milling in the later years when open private trade and hence seasonal fluctuations in prices were abolished.

Examination of the nature of variable costs of rice mills emphasises the fact that milling is predominantly a trading operation involving mainly storage and little value added in actual processing. It thus seems highly plausible that the level of utilisation at which optimisation of profits occurs may change significantly from one year to another according to market conditions. The evidence on capacity utilisation when considered in terms of optimisation thus seems generally consistent both in terms of absolute level

and in terms of year-to-year fluctuations in the level.

This brings forth an interesting distinction between technical capacity, effective capacity and economic capacity of rice mills and emphasises the need for policies to move the economic optimum as close to the engineering capacity as possible. For an investment pattern which reaches optimum at low levels of engineering capacity although profitable from an individual miller's point of view is obviously inefficient for the society as a whole. It may result in excessive allocation of society's scarce capital into the milling sector with several intermediaries having to share the function of storage. In the long run the total milling capacity will expand beyond what would be justified under full utilisation of engineering capacity.

This divergence between private and social return is obviously a result of the manner in which market forces are structured either through lack of appropriate policies or through misguided ones which not only raise the variable costs of operation, but frequently make it almost impossible to predict returns on operations with any degree of certainty. It is also a function of environmental restraints built into the traditional technology of drying and parboiling. There is obviously a great scope for public policy with respect to prices, stocks and credit on the one hand and technology on the other to change this state of affairs.

Underutilisation of capacity does not have a considerable impact on milling costs in the traditional rice mills as fixed costs constitute a small proportion of the total milling costs. To the extent that underutilisation is due to environmental restraints, it would be eliminated in the process of modernisation that would involve replacement of the traditional technology. However, underutilisation that is due to market forces will have significant impact on costs in the context of modernisation of the rice milling industry where fixed investment is much larger. The higher capital requirements have two implications. First, this would influence unit fixed costs and hence market margin more significantly than now and second, it would mean greater allocation of capital per unit of unused capacity than now due to higher capital requirements of modern mills. It raises some important questions about the size of the modern milling plants and

their competitive position in the future.

CAUSES OF DECLINE IN CAPACITY UTILISATION

The downward trend in the quantities milled, as distinguished from year-to-year fluctuation in capacity utilisation, noticed in West Bengal since 1965 until 1968 was due to various factors (Table 1). There was a substantial decline in production which affected the size of the marketed surplus. Marketed surplus was also affected by levy on millers and fixation of prices that disregarded market forces. This diverted marketed surplus away from the regulated market channels as cultivators found it profitable to convert paddy into rice in hullers so as to sell rice in the open market. Single huller operators also indulged in clandestine milling and trading. Single hullers thus proved to be competitive only during periods of control. The decline in recorded quantities milled was also to a considerable extent due to under-reporting by millers of the quantities milled as a result of severe restrictions on trade. The decline in the capacity utilisation was thus not a result of genuine competition from single hullers during normal times. The evidence strongly suggests that intensification of competition in the organised sector was certainly not a saving grace of the mushrooming of hullers.

This lopsided development of the milling industry was encouraged by several aspects of Governmental policy. The frequent controls, levies and price fixations in West Bengal are an excellent example of how policies helped diversify marketed surplus of paddy away from the regulated market channels. The policies prompted cultivators to sell their surplus more in the form of rice thus making hullers more profitable. They also encouraged surreptitious trade by operators of hullers who normally hulled paddy only on custom basis.

The policies also induced expansion of single hullers indirectly by hampering the growth of the organised mills. Fluctuations in marketed surplus caused by factors other than production fluctuations raised doubts among millers about the continuous availability of supplies for milling in the future. More important, the general tenor of the policy towards the organised milling sector was hostile. Policy pronouncements in the early and mid-fifties favoured handpounding although eventual actions did not uphold the principle.

By the end of the fifties, there was a shift in pronouncements towards nationalisation and take-over of milling and trading, thus creating a great deal of uncertainty about the existence of the private industry and discouraging those millers who would have been inclined to modernise. The threat of nationalisation seemed much more real in the case of modernised mills than in the case of antiquated ones.

The policy makers did not recognise the need for modernisation until recently and hence as a corollary, the policies during the period studied did not permit extension of knowledge of the improved milling technology to millers.

However, worse still, the policies had a negative tone. They classified rice milling as a traditional industry along with dal and oil mills, thus denying credit for modernisation even to those few millers who seemed to recognise the profitability of changing from hullers to traditional sheller mills. It was not until October 1969 that a directive was issued to commercial banks to advance credit to private millers for modernisation.

Governmental policies resulted in emergence of illegitimate market charges such as bribes, etc., which normally should not enter economic calculations. They also increased storage and handling losses as a result of diversification of stocks and holding of stocks as rice rather than in the form of paddy. The examination of the Governmental policies in West Bengal thus suggest that apart from discouraging competition which affected the actual spread between paddy and rice prices, policies of controls also caused widening of the spread by increasing milling costs.

A great deal of scope obviously exists for a positive, facilitative Governmental policy in the future. There seem to be at least four ways in which this could be brought about. First, a favourable atmosphere needs to be created which would encourage private investment in technologically superior milling equipment. Second, a need for extension of technical knowledge ought to be recognised and a positive programme adopted for making millers in the private sector aware of the modern milling technology. Third, credit should be made available to millers for modernising existing rice mills so as to foster competition between those who can raise their own capital and those who for lack of capital would fail to modernise. Fourth a price policy which

would stabilise off-seasonal price movements and market supplies from year to year would considerably reduce uncertainty in the trading operations thereby increasing utilisation of effective capacity and thus decreasing average costs and increasing competition.

A complete replacement of private milling will be unworkable for the same reasons for which replacement of grain trade is unworkable.¹⁹ This is because milling is much more a trading activity than it is a processing activity. Efficiency could be enhanced considerably through policies outlined above, the onus for which lies jointly on the government and the private sector.

Notes

- 1 See Uma J Lele, "Foodgrains Marketing Systems in India", Cornell University Press, Forthcoming. Also see John W Mellor, Thomas F Weaver, Uma J Lele and Sheldon R Simon, "Developing Rural India", Cornell University Press Ithaca, NY, 1968, pp 237-291.
- 2 Central Food Technological Research Institute, Mysore, Report on Evaluation of Modern Rice Mills in Comparison with the Existing Mills.
- 3 In Tamil Nadu, approximately 4 to 5 unskilled and semi-skilled workers are employed per ton of paddy milled in traditional huller mills as against 1 skilled worker per one to 1-1/2 tons of paddy milled in a modern mill.
- 4 For making such estimates we used a standard accounting procedure of assuming a rate of 10 per cent depreciation on machinery buildings. We also used market rate of interest of 9 per cent per year rather than a rate of 5 per cent on part of the capital and zero per cent on the rest as done in several official evaluations earlier. Our estimates for Tiruvannur rice mill show that unit fixed costs vary from Rs 980 per ton when only 1,000 tons of capacity is used in a 24,000 ton-annual capacity rice mill, as against Rs 34 per ton when capacity is fully utilised. Although fixed costs are somewhat exaggerated, due to the accounting method of depreciation used, they rather effectively show the variability resulting from variation in utilisation.
- 5 *Op cit.*
- 6 *Ibid.*
- 7 *Ibid.*
- 8 Quality differences refer to various physical characteristics attributed to appearance of rice as different from varietal differences which are partly inherent and affect cooking quality and flavour for which consumer preferences are highly articulate in India.

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port restrictions. The industry was almost dislocated as a result of Partition in 1947. Efforts at resuscitation did not meet with any great success as competition from imported cycles and spares could not be overcome by the attenuated industry. It was only after the grant of protection in 1950 that the industry could regain its lost tempo. By 1950 the cycle industry had 34 units at Ludhiana while by 1960 the number of units increased to 297. It will be correct to say that, although there existed a nucleus of cycle parts manufacturing units at Ludhiana by 1947-48, the rapid expansion that took place later was to no less an extent the outcome of the tariff policy of Government which granted protection to the industry in 1950. Further, fixation of assemblage quota for complete cycles for the small-scale and cottage-type units *vis-a-vis* the large-scale establishments inspired many an entrepreneur to take to the cycle industry. A more detailed examination of the policy in this field will reveal how a major inducement was provided to the industry by means of various policy measures.

As for the machinery and equipment required for the industry the experience at Ludhiana is the same as that of the hosiery industry.⁹ The machines that were used came to be manufactured locally as time passed. Among cycle parts, the industry produces all except those which can be produced economically only on a large scale, e.g. rims, chains, tyres and tubes. The present structure of the cycle industry can be understood in terms of the three main sub-groups, viz. (a) manufacture of spare parts (b) assembly units and (c) units which assemble and manufacture some parts themselves, i.e. assemblers, fabricators and assembler-cum-fabricators.

THE SEWING MACHINE INDUSTRY

An attempt to discover the origins of this light engineering industry reveals the existence of some traditions. During the Second World War a few small parts of sewing machine had begun to be manufactured at Ludhiana,¹⁰ and about 20 units existed prior to 1947. The impetus to further expansion of this industry seems to have come from two major forces. Some entrepreneurs who had established sewing machine plants in Pakistan — West Punjab — moved to Ludhiana and re-established the same units there. One such sewing machine assembly unit is Lakshmi, whose owner had a unit with the same name in Lahore. In a similar way several manufacturers of sewing ma-

chine parts also shifted to Ludhiana from Pakistan. But the tempo of expansion in this industry mounted on grant of protection to the industry. From the manufacture of minor spare parts, the industrial units quickly switched over to the assembly of full machines. During 1955-56, of the approved production programme of 36,000 machines for the small-scale sewing machine manufacturers of Punjab, the share of Ludhiana was as large as 32,500 sewing machines. The sewing machine industry is thus largely concentrated at Ludhiana though there are units at Basi Pathana, Amritsar, Phagwara and Batala.

The assembling industry uses parts and components manufactured mostly in Ludhiana. Among the 106 parts for a complete sewing machine nearly 100 parts are manufactured locally. Some parts are, however, imported even now and continuation of their imports is explained by (a) the scale of operations required to manufacture them economically and efficiently and (b) the availability of high grade steel and other raw materials.

MACHINE-TOOL INDUSTRY

The growth of the machine-tool industry at Ludhiana provides a good illustration of growth through derived demand. The different industries that developed at Ludhiana meant demand for basic machine-tools such as lathe, grinding machine, drilling machine, shapers and the like. The growth of the machine-tools industry runs almost parallel to the growth of industries like the cycle and the sewing machine industries. Nevertheless, detailed analysis alone will show the phases of growth through which the industry has passed. Further, the basic requirements of the industry, like castings, are often obtained by the bigger units from smaller local units engaged mainly in producing such items. There is a theory at Ludhiana which explains the growth of the machine-tools industry in terms of the derived demand aspect, referred to above, and the strong local basis of the castings industry. The machine-tools industry has a few large units manufacturing certain basic machine-tools¹² but there is a large number of small units which cater to the machine-tools requirements of cycle, sewing machine, oil engines, oil expellers, hosiery, automobile parts, agricultural implements and the like. In the case of this industry also, the period of most rapid growth falls between 1951-60. In the two phases that we have des-

TABLE 4: MACHINERY GOODS

	Sewing Machine Parts	Sewing Machine Assembling	Sewing Machines	Others*
	Number of Units Newly Added			
Pre-1947	1	—	—	21
1948-50	1	—	—	17
1951-55	13**	4	1	34
1956-60	23**	2	14	115
1961	2**	—	—	20
Total	40	6	15	207

* Lathes, machine-tools, agricultural implements, power presses, drilling machines, shapers, oil engines, milling machines, bolts, oil expeller, pulleys, hack saw, frames, gears, chaff cutters, chain wheels, shaping machines, engineering spare parts, diesel engines, band saw, hosiery machines.

** Out of the units started during 1951-55, 1956-60 and 1961, 4 units, 3 and units and 1 unit respectively are manufacturing other goods also.

TABLE 5: TRANSPORT EQUIPMENT

	CYCLE PARTS	CYCLE ASSEMBLY	AUTO PARTS
	Number of Units Newly Added		
Pre-1947	13	—	1
1948-50	17	2	1
1951-55	61	4	4
1956-60	176	3	28
1961	21	—	18
Total	288	9	52

TABLE 6: BASIC METAL INDUSTRIES

	Castings	Other Products*
	Number of Units Newly Added	
Pre-1947	4	4
1948-50	4	—
1951-55	10	—
1956-60	32**	9
1961	8	5
Total	58	18

* Steel balls, MS rods, brass utensils, conduit pipes, re-rolling, forgings, taps and dies, shafts and pulley, utensils, foundry works, free cutting steel, gun metal pipes, steel billets, bars, rods, hoops, etc.

** Out of the 32 units, 2 units are producing other products also.

July 11, 1970

TABLE 6-A: BASIC METAL INDUSTRY —
SUBGROUP IN CASTINGS

	Pig Iron Casting	Steel Casting	Castings
	Number of Units Newly Added		
Pre-1947	3	1	—
1948-50	2	1	—
1951-55	11	—	—
1956-60	27	4	1
Post 1961	2	—	5
Total	45	6	6

cribed earlier, as 1951-55 and 1956-60, 52 and 154 units were added respectively.

IV

Conclusions

From the foregoing descriptive account certain important strands can be taken up for further analysis and elaboration. In the first place we have found that the traditional industrial base at Ludhiana showed small beginnings of almost all the industries which developed quickly during the fifties.¹³ But the early beginnings were on an extremely small scale and it required a proper matching, so to say, of several factors before these could be converted into a process of industrial development. In our account we have laid emphasis on certain policy measures as providing the required inducement. There were certain aspects of local planning at Ludhiana, such as planning of industrial areas A and B and an Industrial Estate which helped in the expansion of the activities of existing units. The lands for the Industrial Area were purchased during 1949 but the civil and other related constructions were completed by 1956. No doubt the period subsequent to 1956 witnessed tremendous proliferation of industrial activity at Ludhiana. Retrospectively, the different attempts at physical planning were an outcome of the tremendous shortage of accommodation felt at Ludhiana during the fifties. This experience seems to be repeating itself currently. Industrial units at Ludhiana began to form broad groups of industrial clusters during 1956-60, *etc.*, cycle assembly and cycle parts or sewing machine assembly and parts. Presently these have well organised associations also. The suppliers of various basic

machines to these clusters only indicate the outer rim of the cluster.

An interesting point of some methodological significance should be brought in here. In a study of this kind, we are not testing any hypothesis as did the study referred to earlier. Studies such as the present one, are not of a hypothesis-testing variety. We have a plausible explanation or desideratum which we wish to examine more fully in terms of identifiable policies and factors operating both at the micro and macro levels, again on the economic and non-economic planes. It is thus an environmental study of growth in a certain location, and our aim is to cull out the different factors whose interplay can explain this growth. In this, our focus is on the interplay of factors and how these transformed the basis of opportunity in the industrial field. We have emphasised how certain policy measures provided a turning point in the development of industries at Ludhiana. These measures should be examined individually in terms of their impact on individual industry. One can say that the War-time restrictions on imports continued, in a sense, through the policy of granting protection to certain industries. The various forms of policy measures through which industrial units enjoyed partial protection and a sheltered market will have to be assessed. These will include complete ban on imports, levying of import duties and imports of raw materials as against import of finished products. An examination of all these should make the economic and technological basis of the opportunity clear. But when we try to analyse the growth of a few units like the Hero Cycles, Rita Mechanical Works, R K Machine Tools, or the Pearl group of industries (these are some of the bigger units) to each one of them the opportunity appears to have come in a different or unique manner.¹⁴ This might reveal the entrepreneurial basis of the opportunity.

Any account of growth of small-scale industry at Ludhiana will be painfully incomplete without bringing in the community basis of enterprise into the causal nexus to which some reference has been made in the preceding paragraph. This is perhaps the most important basis of entrepreneurship in Ludhiana. While it is correct to say that the traditional hosiery industry was owned by Hindus and Jains the non-hosiery, engineering group of developing industry saw a new community forging ahead as entrepreneurs.

ECONOMIC AND POLITICAL WEEKLY

This is the Ramgharia Community. It is stated that this community is largely found around Ludhiana and Phagwara. The Ramgharias are carpenters by caste and vocation and possess a remarkable degree of adaptability and skill. They have taken to several new occupations in the field of mechanical and electrical engineering. Their greatest impact is in the field of skilled workmanship and design. Quick to imitate any device, gadget, or machine, they have been largely instrumental in designing prototypes of several imported machines. While, therefore, the local, State-level and Central policy measures provided a favourable situation, the Ramgharia community was already actively engaged in converting this into an economic opportunity. It is possible to generalise from the Ludhiana experience that entrepreneurship consists in converting an emerging situation into an opportunity, evolving an organisation to harness it for profitable economic activity and making it into a going concern. Perhaps an intangible contribution of this community is that they have infused the other communities at Ludhiana with the entrepreneurial spirit, a spirit of adventure and search for new avenues of industrial expansion. Of course, this particular aspect can be placed into a proper perspective only after we analyse typical entrepreneurial cases at Ludhiana.

The typical Ludhiana entrepreneur has chosen to remain in the field of small-scale industry. There are of course few important exceptions to this as exemplified by the few corporations. But the industrial complex at Ludhiana can be understood fully only when the vast numbers of small-scale units are taken into account. Several explanations are advanced about the entrepreneurial preference for this sector. It is stated that he is a small man but being very dynamic tries two or three lines and in doing this the small scale of his operation suits him eminently. Most of the entrepreneurs have little formal education and they desire to remain away from rules and regulations of Government, again a reason for which the small scale of operations will be chosen. Being innovative, he desires to remain free to try new lines, and being extremely hard working and efficient, he competes successfully with large-scale manufacturers. Even the pattern of organisation of the large units favours the existence of an extensive small-scale sector at Ludhiana. Many large-scale units depend upon

scores of small units for their components. This arrangement has proved to be economically viable.

The industrial growth of Ludhiana shows how forces making for a major breakthrough were superimposed, as it were, on the underlying forces of continuity in the field of industry. It shows how the community basis of entrepreneurship came into contact with certain basic policy measures which were transforming the very basis of opportunity in the field of technology of manufacture.

NOTES

- 1 A preliminary account based on a seed money grant from the research funds of the Indian Institute of Management, Ahmedabad. The author is thankful to the research committee.
- 2 A subsequent preliminary enumeration (1967-68) places the total number of small units at 4,343. The final results of this enumeration are, however, not available in a published form. During 1968-69 the District Statistical Officer reckons a total of 5,000 small units working in Ludhiana.
- 3 See "Small Industries and Social Change: Four Studies in India", UNESCO Research Centre on Social and Economic Development in Southern Asia, Allied Publishers, 1966; "Social and Economic Aspects of Small Industries in Ludhiana", S B Rangnekar, pp 130-145.
- 4 Some of these institutions included Craik Technical Institute, the Dyeing and Printing Institute, the Weaving Demonstration Factory and the Mayo School of Arts.
- 5 Functionally the industry can be divided into two categories (a) self-sale and (b) fabricators. The latter are usually ancillary to either big units or sole agents who supply them their own yarn and other raw materials and get the stores manufactured on fabrication basis — the fabricator getting only his wages for the goods manufactured. This category is, however, on a decline and a large number of units are now on the self-sale basis.
- 6 The important machines are (a) power driven: Raschal, power round power socks machines, interlock, flat lock, chain lock electric cutter, (b) hand driven: socks machines, rounds, dialdars raising machine, flat, jackround, dialdar jack round, hand spinning wheels. The hosiery machine manufacturing industry owes its beginnings to the Kalsi Mechanical Works at Ludhiana.
- 7 The first worsted spinning mill came into existence at Ludhiana in 1949.
- 8 The Pearl group includes hosiery, textile machinery, mechanical and engineering, foundry work and scooters. The R K group includes woollen mill, wool and allied pro-

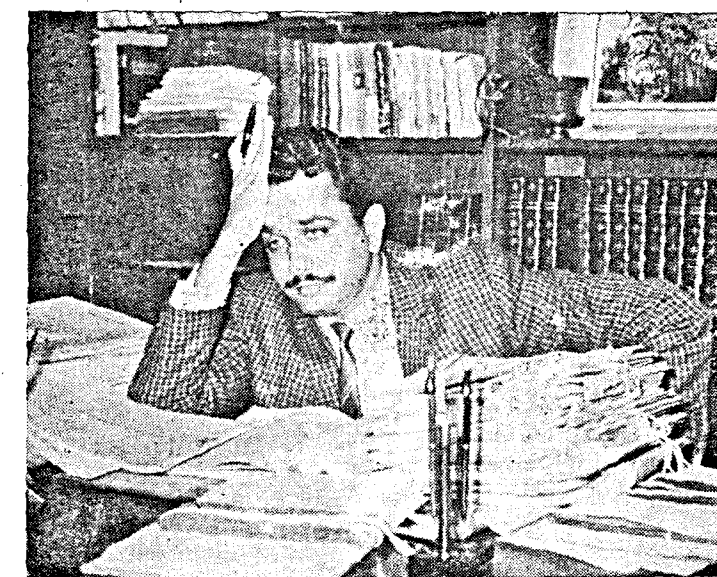
ducts, staple spinning and nylon knitting, wool combers, card clothing and machine-tools.

- 9 These machines are: lathes and addas of different sizes, presses and drilling machines, shapers, blowers, shearing machines, enamelling plants, polishing machines, electroplating equipment, tempering furnace, forging machines, wire-drawing machine, belts, hammers, files, die, punches, vices and other tools.
- 10 It will be of some interest to note that as early as 1925 at Basi Pathana in the Patiala district (then a native state) a factory manufacturing sewing machine parts had been started by Ramji Das Harbans Lal.
- 11 The parts imported are shuttle, bobbin, bobbin holder, pressure foot, armed bend, take-up cam, take-up lever, arm shaft, corner shaft, shuttle roll and needles.
- 12 These units cater to the all-India and the export markets.
- 13 It is well known in Punjab that the chaff-cutting machines —

known locally as Toka machines — were manufactured by small foundries at Batala as early as 1927.

- 14 It is a matter of recent history that the owner of the Hero Cycle was himself running a repair shop not long ago. Ludhiana has many such instances of fantastic industrial development capuled, as it were, in a short period. The following quotation from "The Enterprising Man" is most appropriate: "The great industries and businesses of America for the most part had humbler beginnings. Sears Roebuck and Company started in a railroad station in a small Minnesota town. Ford Motor Company began literally in the proverbial bank alley shop. United Air Lines was formed from a clutter of air-mail scattered in tinstack hangers on bumpy dirt runways throughout the country. Once grown to enormous size and power, it is difficult to imagine that the large modern corporation was ever small."

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State Government and Local Administration

From Control to Co-operation

Mohan Singhal

The concept of local autonomy versus State powers is outdated. If government is to function as a service for the benefit of the people, State and local administrations must work as two active and co-operative members of a partnership. For this purpose, State controls over local government bodies should be subtle and carefully balanced to forestall malpractices while avoiding any tendencies which stifle local initiative.

These controls should be reduced in number and rationalised by working out model bye-laws, regulations and budgetary patterns. State governments ought to intervene only when prescribed standards are not adhered to, allowing local bodies to frame their own particular procedures and regulations. Inspectors of local bodies should be established by ministries of local government to maintain specialised and sympathetic liaison between the two partners. These are among the suggestions spelt out in detail in the article below.

DEVELOPMENT and progress of local institutions in India is of its own peculiar kind. Local government, as it existed at the time when the British withdrew from the country, was a product of slow and gradual evolution. "This growth had not been that of a federation of smaller units into a large unit to deal with common interests but the much more difficult and tortuous process of slow devolution of powers from a highly centralised authority to local units".¹ The underlying motives of British rulers also underwent changes from time to time. The two dominant considerations that led the British to establish local government institutions in India were the administrative problems due to the large size of the country and the paucity of finances of the imperial power.

Both before and after the transfer of power from the East India Company to the British Crown, it was felt that it would be easier to collect taxes if local people were associated in some manner with the local administration. Mayo had that objective. Ripon regarded municipal institutions "desirable as an instrument of political and popular education"² through which the people of India could be trained "to take an intelligent share in the administration of their own affairs".³ While being in favour of local self-government Montague Chelmsford said that the establishment of local self-government was an important step towards the formation of a responsible government in India. In this way the establishment of local self-government was an important direction towards the political progress of India. Ripon had insisted that government control should take the form of friendly advice and guidance and that before taking any strong action against a local body, the government should exhaust other corrective means. In practice, however, these

directives remained mere pious intentions. It is not only essential that steps should be taken to see that authorities efficiently perform the jobs they have been given to do, but it is also essential that local authorities should not exceed their duties by engaging in ventures for which they have no legal authority.

The interests of the local bodies and State Governments are so closely inter-related that a high degree of co-ordination and co-operation is necessary between them. Due to increased mobility and speedy communications and changes in the concept of governmental functions, many activities which were formerly regarded as purely local, have now to be viewed in the national context. The State and local government relationship is, therefore, no longer to be considered from the antithetic angle of local autonomy versus State powers but rather from one of partnership and co-operation aiming to secure the best possible and most efficient service for the people. "The kind of relationship between central and local government that has to be aimed at, is neither control of local government by central government nor such concurrent powers as would be appropriate for the units of a federation. Rather the optional relationship would be a partnership of two active and co-operative members, but with the Central Government, definitely the senior partner".⁴ The State and Union Governments must play a positive and supporting role to strengthen the municipal administration so that it may perform its tasks efficiently and effectively.

To achieve this objective, there must be a working relationship which implies on the part of the State Government, an increased emphasis on guidance, research, advisory and consultative services, technical assistance and

training programmes; and on the local government's side a genuine concern for improving their processes and procedures to the end that decisions can be made and implemented speedily and efficiently. Since local government has a direct and profound effect on the working of the democratic system, the State Government has to provide the right quantum as well as the right type of assistance to the local authorities to invigorate and strengthen them.

In local government it is clear that some system of control by the central authority is required for popular direction, unification and co-ordination of the services of local authorities. Otherwise the standards and extents of these services would be dissimilar in many districts and this would be manifestly unfair to the population as a whole. For instance, the education of children throughout the country should conform to accepted standards, and that schools and teaching in one area should not be substantially inferior to those of another area. Similar considerations apply to other services. The Union and State Governments should not have a negative approach of restricting the initiative, discretion or assumption of responsibility on the part of the local bodies, but they should adopt a positive approach of helping the local authorities to become increasingly self-reliant.

FORMS OF STATE CONTROL

A State's control over local bodies assumes three forms—legislative, judicial and administrative. The legislature and the courts, however, come into the picture occasionally, the former when the law has to be enacted or changed and the latter when any action of the government or the local authority is challenged on legal grounds. The law often gives wide powers of adminis-

trative and financial control to the State Government. This constitutes the most important basis of the State Government's authority and covers almost every aspect of local administration.

THE METHODS AND TECHNIQUES OF ADMINISTRATIVE SUPERVISION AND CONTROL

The techniques of supervision and control, as exercised in the States, have been handed down from British days. Some of them are indirect and less rigorous such as giving directions, calling for information and reports, review of local action, conditional grants-in-aid, loans, etc. Government can control by the threat of withholding grants. The general grants and the percentage grants will be released if the State Government is satisfied with the efficiency of the local authority's services or with the work for which the grant is to be paid. Similarly when a local authority wishes to borrow money there is always need for the sanctioning of the proposed loan. Before giving sanction, the loan-sanctioning authority has to be satisfied that the purpose for which the money is required is proper and that the amount to be borrowed is reasonable and necessary. Other techniques are more drastic and take the form of the annulment of local decisions, prior approval of local actions, action in default, suspension and removal of elected members and dissolution and supersession of the council. If a local authority fails to provide proper sewers or sewage disposal plants, or if it does not take such steps as it should to put an end to smoke nuisance, the government may declare the local authority to be in default and can take action against it. The latter types of control are negative and their frequent exercise has an adverse effect, undermining the confidence of the people in the system of local government. By and large, the techniques of supervision and control in India — specially in the urban areas — have remained rather static, unimaginative and negative.

Criticism of the present type of state control relates mainly to its nature and extent and the agency through which it is exercised. As regards its nature, the complaint is that it is formal and negative, rather than constructive and positive. Its object is to check the board's acts and resolutions against the laws, rules and orders, and to forbid lapses, rather than to scrutinise them from the point of view of administrative propriety and efficiency and suggest improvements. All sorts of malpractices take

place in placing contracts, execution of works, making of appointments, and other matters, but they remain undetected and uncorrected. For the purposes of the State Government, it is enough, if the rules of prescribed procedure in doing of these things are complied with. It is true that the auditors can review the board's transactions from the higher standpoint of propriety and prudence also, but their angle of vision is only financial. The audit is only a test audit and it takes place when the mistakes are already past correction.

Changes in the technique of control can eliminate their multiplicity and bring about a more constructive approach in State-local relations. In many States, the budget proposals, bye-laws, regulations or taxation proposals of local authorities are subject to confirmation by the State Government. In Rajasthan, even when a budgetary provision exists, every proposal of the council for expenditure exceeding Rs 5,000 requires the sanction of the State Government. Such rigid controls tend to stifle local initiative, delay action and retard the healthy growth of civic responsibility. Controls should be reduced in number and rationalised by working out model bye-laws, regulations and budgetary patterns. The local authorities should be free to frame their bye-laws, regulations and budget in conformity with the required standards. The State Government should intervene only if they are inconsistent with the law or the standards laid down. It may also retain the existing right of approving the budget of indebted councils. Once the budget is duly sanctioned the detailed sanction of individual works within the budget should be left to the municipal authorities and only major projects requiring higher technical scrutiny need go to government. Although the necessity for the imposition of certain conditions cannot be denied at present, there are so many restrictions attached to grants and loans that it is very difficult for local governments to draw and utilise them in time. Therefore, there is need for rationalising conditions and simplifying procedures for grants-in-aid and loans.

Regarding other extreme forms of control such as action in default, suspension and removal of members and dissolution and supersession of the councils, these should be applied rarely and as a last resort after all means of advice and persuasion have been exhausted. They must be treated as powers held in reserve for chastening the local administration and not for

putting an end to their existence. The dissolution and supersession of local bodies has been frequently resorted to by the State Governments on grounds of maladministration, corruption, gross mismanagement of finances, party factions, etc. But the dissolution and supersession of local bodies is not a satisfactory remedy for the maladies from which they suffer. Dealing with the symptoms rather than the disease itself is a short-term palliative. Almost all the committees and commissions that probed into the affairs of local authorities have discouraged recourse to drastic action. The Simon Commission had observed that in the States' relations with local bodies "Where spur and rein is needed" the State Government had been given the "use of the pole axe". The Municipal Board Inquiry Committee for Agra, while recommending supersession observed as far back as 1942: "Considering the history of this Board, we are firmly of the opinion that if prompt action had been taken, drastic action such as we have recommended now would have been unnecessary". The relations between the State Government and local bodies should be so managed that the government can take prompt notice of defaults and irregularities and initiate immediate corrective measures.

Much of the maladministration and malpractices which compel State Governments to take drastic action are due to the faulty structure and other inherent defects of local authorities, such as the absence of strong and independent executives, undue interference by elected members in executive matters, inefficient and unqualified municipal personnel, meagre resources of local bodies, losses due to improper assessment and collection of taxes, wasteful expenditure and inefficient and slack audit. Hence there should be more direct and continuous consultations between officials of the State Government and local authorities to provide timely assistance and guidance.

MACHINERY FOR PROPER CONTROL AND GUIDANCE

The State Governments can play their role effectively only if they have a proper machinery to supervise, advise and guide local authorities supported by a regional inspectorate. A well-trained and effective inspectorate is the characteristic feature of control over the local bodies in England, where there are inspectors of local bodies in the field of education, highways, fire brigades and the like, establishing direct links bet-

ween the local authorities and the relevant departments of Central Government. Inspection involves the principle that guidance and supervision should be based on knowledge of local conditions. "Contact through inspectors has the outstanding merit of flexibility and manifold adaptability."⁵ The inspector can see both sides of the case with empathy and if he is properly selected, represent the situation of the one to the other and correct one another's impression of intentions and motives. This assists in getting things done with the maximum of persuasion, the reduction of coercion, the best adaptation of measure to purposes and the improvement of morale.⁶ But the chief value to local authorities of government inspection lies in the help and advice they receive from the inspectors at their visits and frequently results in much improvement without the need for official intervention.⁷

GUIDING LOCAL BODIES

At present there are no organised field agencies which can watch, guide and assist the local authorities on their continuously rising problems. Nor is there an overall well-informed and expert machinery at the State level. Positive steps have been taken to build up a proper organisation for the guidance and control of Panchayati Raj institutions in the rural areas, where departmental officers are continuously associated with the different tiers of rural local bodies to advise and assist them. In the case of urban local bodies, most States have only a secretariat department to deal with administrative and legislative matters. Often municipal affairs form part of a large department or are combined with other departments under a common secretary. Kerala and Rajasthan and more recently Maharashtra, Gujarat, Andhra Pradesh and Punjab have directors of local bodies but they have no organisation to guide and assist local authorities. At best they are adjuncts to a State secretariat department. The directors and inspectors should function as friends and guides of local bodies. A body of inspectors for scrutinising the work of local authorities and keeping the State Government in touch with their special needs would also serve as a source of information for State and local officials.

Madras has an inspectorate of local bodies consisting of inspectors at district headquarters. In West Bengal there are three inspectors of local bodies appointed by the State Government to inspect the local bodies and

investigate specific matters referred to them by the Divisional Commissioner. In Bihar, the Inspector of Local Bodies has, by and large, limited his activities to submitting inspection reports to the State Government. In a majority of States, however, collectors and commissioners shoulder the responsibility of exercising supervision and control over the local authorities. Such supervision has been a part-time duty of busy officials like collectors, commissioners, divisional engineers, directors and assistant directors of public health and inspectors of schools, whose main work lies in other directions. They have neither the time nor the specialised knowledge and outlook required for supervisory duties of this kind. "It must be admitted", says Strickland, "that ... the district officers and others who advise and control the (local) authorities have less knowledge of local administration in principle and practice than is desirable".⁸ Particular objection has been taken to the agency of the collectors and commissioners for the purpose of State control.⁹ Apart from the short time and appropriate specialised knowledge that these officers are able to apply to their work in connection with the local bodies, they are principal officials of the State administration on the spot.¹⁰ As such they come in close personal contact with the leading men of their respective areas and due to their own attitudes of sympathy or otherwise towards them, often on political grounds so that they are not free from bias of one kind or another, when they come to deal with such persons in local bodies. Often they find it difficult to take a detached view of local problems and controversies. It has, therefore, been often demanded that in place of these officers, the local self-government department should set up its own independent agency of local control.

The functions of the Directorate as given above do not include technical guidance and assistance on town-planning and development and designing and execution of major works such as water supply, sewerage and sewage disposal. Recently, some State Governments have set up town-planning departments. Hence a well-equipped town and country planning organisation should be established in every State to assist the municipal councils in the preparation of master plans. The organisation may also prepare regional plans providing the framework for local plans. Every State must have specialised, organisa-

tions for public health, engineering and water supply, sewerage and sewage disposal. These two technical services should function in close co-operation between themselves and with the Directorate of Local Bodies to ensure constant consultations and well co-ordinated field activity.

Another important matter that would require the constant attention of the Directorate is the audit of accounts. Audit will continue to be the responsibility of the examiner of Local Fund Accounts, but it should become more meaningful and purposeful. It is probably not inferior to professional audit as an audit of accounts, and it has the additional merit of being an inquiry into the legality of expenditure. Audit must play a more effective and positive role in improving the working of the local bodies. The statutory direction given to a government auditor to disallow all illegal expenditure and to surcharge it upon those he considers responsible for it, — i.e., make them liable to pay it personally — could hardly give him a more drastic jurisdiction. There are a large number of audit objections remaining undisposed of, but many of them are of a routine character relating to procedural matters. It is necessary that the more serious objections should receive prior and careful attention. The directorate should be able to give suitable directions and indicate specific aspects on which a probe is needed.

UNION GOVERNMENT AND LOCAL BODIES

Since the subject of local government has been included by the Constitution in the State list, the major responsibility for developing local institutions rests with the State Governments. However, the role of the Union Government in stimulating the growth of local institutions is not unimportant. The Union Government should organise research and higher training at the national level and recommend standards of services. Through periodical conferences, seminars and consultation, the Union Government can stimulate thinking and bringing about some uniformity in the working of local bodies. The Union Government can also serve as the clearing house for exchange of information and experience.

In 1948, the Ministry of Health convened the first conference of State Local Self-Government Ministers, with the object of providing a forum, where those responsible for this important field

of administration could meet together, exchange ideas and discuss problems of common interest. The Second Conference of State Local Self-Government Ministers was convened in 1954 which made a number of important recommendations both for rural and urban areas. It recommended the establishment of a Central Council for Local Self-Government which was established under Article 263 of the Constitution.

The Council has been meeting every year to consider problems of the local bodies relating to planning and development, finance, health and sanitation, slum clearance, housing, legislation and personnel and has been requesting the Union and State Governments to take appropriate action. At its meeting held in 1963, the Council resolved that the

Local Self-Government wing of the Ministry of Health be suitably equipped for the collection and dissemination of information, undertaking research in municipal matters (including their finances and publication of literature). The Council as well as the Conference of Municipal Corporations have from time to time adopted resolutions proposing the preparation of the draft model laws, a uniform account code and model rules and bye-laws for municipal bodies.

There is no doubt that present methods of State and Central control are not suitable or effective. Had it not been so, local administrations could not have been as deficient as they are today. The need of the situation is to strengthen State local self-government

departments and provide them with an adequate expert inspectorate of the general as well as the technical kind.

NOTES

- 1 "Indian Taxation Inquiry Committee, 1924-25".
- 2 "Ripon's Resolution 1882", para 5.
- 3 "Resolution of September 30, 1881".
- 4 Hicks, Ursula: "Development from Below", Oxford, 1961; p 437.
- 5 Finer, H: "English Local Government", 1950; p 344.
- 6 Harris: "British Government Inspection" — foreword by Finer.
- 7 MacNalty, Arthur: "Local Government", 1948; p 71.
- 8 Blunt: "Social Services in India", p 366.
- 9 Sharma, M P: "Local Self Government in India", p 134.
- 10 *Ibid*, p 135.

FROM THE CHAIR

The Metal Box Company of India Limited

Review by the Chairman, Mr Bhaskar Mitter

THE following Review by Mr Bhaskar Mitter, Chairman, The Metal Box Company of India Limited, has already been circulated to the Members.

GENTLEMEN,

In my Review last year I had said that the year ahead was going to be a difficult one with likely problems of inadequate tinplate supply and increasing competitive pressures. In the event, the year under review not only faced these problems, but to them was added the most severe industrial unrest in our Calcutta establishments, leading to the prolonged closure of the two factories there. This had the most grievous impact on the Company's results.

SALES, PROFITS AND DIVIDENDS

The Company's product sales increased by 6.2 per cent to Rs 27.03 crores. Excluding the effect of excise duty, the growth was 4.1 per cent which would have been considerably higher had it not been for the closure of the Calcutta factories. Whilst this low growth was inadequate to meet the continually increasing costs and therefore depressed results, the direct effects of the closure, during which period substantial fixed costs had to be incurred, eroded substantially the Company's profits, which fell from Rs 192 lakhs to Rs 102 lakhs. The severity of this drop left no option with the Directors but to pass over the interim dividend, a decision which they took with the utmost regret.

In view of the subsequent improvement in performance after the closure, and having regard to the unusual cir-

cumstances of the year which I hope will not be repeated, the Directors decided to draw a sum of Rs 5 lakhs from the General Reserve and to recommend a dividend of 6 per cent. In making this recommendation they have borne in mind the fact that Rs 29 lakhs (before tax) charged to profits relates to payment of bonus for 1968-69, in respect of which provision made in that year's account was in accordance with the Payment of Bonus Act but actual payment was higher.

The demand for packaged consumer goods has steadily increased over the years. However, as the bulk of demand for our packages is still dependent on agricultural commodities, any shortages in one particular area can have a considerable bearing on the Company's sales. An unsound policy of controls on vegetable oils and sugar for example, has proved a stumbling block to the growth potential of industries such as vanaspati, confectionery and biscuits with the resultant repercussions on our growth. Such restrictions were more than ordinarily felt last year.

Whilst the growth pattern of packaged goods is expected to continue, it is difficult as yet to forecast how it will be affected by the unfortunate excise levies introduced in the last fiscal budget on metal containers and on the products of many of our customers. The burden of these levies is now being passed on to the consumer. The food industry, which, for reasons of conserving food and raising national

nutritional levels, ranks as a priority industry as defined by the Government. The high level of excise duties on containers and on packaging raw materials, particularly tinplate and aluminium, has resulted in package costs forming a very high percentage of retail prices. For example, the ratio of package cost to retail selling prices in the United Kingdom for a number of well known consumer items varies from 6 per cent to 12 per cent whereas in India the ratio for the same items is now between 14 per cent and 25 per cent. It is difficult to believe that the Government's intention is to price essential mass consumption packaged goods beyond the reach of large sections of our population, which is what the recent cost trends seem to be doing. The rapid growth of rural markets so keenly awaited has not yet materialised, and consumer industry has just touched their fringes. I am afraid that the possible consequences of government policy relating to packages, particularly metal packages, will tend to further delay such growth.

The growth of the Company's Paper and Plastics operation has been satisfactory, despite keen competition. It is sometimes argued that metal substitution can take place on a large scale by shifting to plastic packages or glass bottles. The climatic conditions, vast distances involved and breakages in transport and handling that prevail in our country, preclude the use of any materials other than the strongest available to provide a long shelf life for the

package and the products. The growth in paper and plastics packages will, therefore, be on its own and, as in most developed countries, they will co-exist with, and supplement other packaging media. Any major shifts will be isolated to a few specific products. It is my belief that even without any such major shift, the impressive rate of growth in the field of paper and plastics will continue and it will make increasing contributions to the Company's results. Results of the Company's subsidiary, Kosmek Plastics, suffered from an imbalance in printing capacity, high cost of development items and inadequate raw material supplies earlier in the year. I am hopeful of that Company achieving substantial improvement in results in the current year.

PACKAGE COSTS AND TECHNICAL ASSISTANCE

It has been this Company's endeavour to improve the competitiveness of metal package by reducing its cost by economic utilisation of materials and constant development of cheaper but functional specifications. In other countries this has been achieved by participative research by the package manufacturer and the primary producer of raw materials, but there is still in our country an apparent lack of readiness on the part of the primary producers to undertake research and development efforts aimed at reducing costs, due to a fairly secure market for their products. An example is tinplate, where major achievements in recent years—double reduced plate, lighter tin coating, tin-free steel, to mention a few—are the results of research and development work in the Steel industry and the feedback of technological findings by can makers from the user's point of view. With your Company's own research and development resources and the access available to us through technical assistance arrangements, we are eminently in a position to assist the primary producers in any major and effective development in the field of packaging raw materials.

The technical assistance from our associates provides us with opportunities to bring improved methods and products into this country. It has to be appreciated, however, that the introduction of the latest developments in packaging is subject to important limitations. For example, while we are ready to introduce containers made from 2CR tinplate, we cannot consider their marketing until Hindustan Steel are equipped to make such plate or, alternatively, Government can assure continuing imports. In the development of new products such as improved versions of Crown Corks and other sophis-

ticated closures, beer cans, easy opening ends, tinplate aerosol cans, aerosol valves, we have continuous access to the most advanced technology in the United States and Europe through our technical associates. We can over a reasonably short period equip ourselves to manufacture all these products, but we need to be certain that raw material of the right quality and specifications will be available to develop the market, which our marketing research and other studies indicate, can be created. Without that assurance we run the risk of introducing an item the quality production of which cannot be sustained at economic rates; nor can a regular supply be assured. For the development of Indian manufacture, our own research establishments as well as those of our technical associates have been, over a long period, testing materials and developing them to meet international specifications.

RESEARCH AND DEVELOPMENT

Our research and development efforts on which we spent Rs 31 lakhs last year continue to be concentrated on material savings on the one hand and import substitution on all fronts on the other. Increasing development work is now being undertaken by our research laboratories and Technical Development Division in the field of cartons, laminates and paper packaging systems. The Technical Development Section in Bombay is now operational and the Machinery Building Factory is looking forward to a substantial increase in its activity and the manufacture of more complex machinery.

EXPORTS

Exports at Rs 70 lakhs again registered an impressive growth of 24 per cent over last year, despite mounting competitive pressures in our markets. Unfortunately, low prices exert a negative pressure on our domestic margins which, despite incentives, makes exporting a non-profitable exercise. Nevertheless, in keeping with the declared objectives of your Company, the search for new markets continues and we have now been able to gain an entry into countries like Australia, Ireland and Ghana. The Company was given an outstanding performance award for Crown Corks by the Engineering Export Promotion Council. The Company's contribution to the export effort is even more spectacular in terms of goods exported in our packs, the value of which is estimated to be in the region of Rs 20 crores.

RAW MATERIALS

The supply of raw materials has been

a major problem in the past year inasmuch as tinplate supplies from Roukela have been meagre and the other major supplier could not meet orders due to industrial unrest. Despite heavy production backlogs and Roukela's inability to meet the moderate targets of production, the ban on import of general purpose tinplate continued during the year, as indeed it still continues according to the recently announced import policy. If Roukela's performance does not show any improvement there will be a large gap between the supply and demand for tinplate. If this gap is not filled by imports, it could have adverse consequences for your Company which, in turn, will affect a large number of consumer goods industries as well as the availability of packaged goods to the consumer. Early in this calendar year tinplate prices were increased by approximately 6 per cent so that the difference between international and local tinplate prices is now as much as Rs 800 to Rs 1000 per tonne.

INDUSTRIAL RELATIONS

I have earlier referred to the industrial unrest that the Company suffered in its Calcutta Units, which started in early July. The Company was then faced with a demand from the Workers' Union of a bonus for 1968-69 of 20 per cent, several times higher than the 4.5 per cent payable under the Bonus Act. Whilst bipartite discussions were continuing for an agreement on the issue, the Daily Rated Workers' Union embarked on a programme of agitation, joined later by the other two Unions in Calcutta. Hostile demonstrations, accompanied by defacing of Company property, were held before the Company's offices and the workmen resorted to go-slow tactics, intimidation of individual officers and pre-planned intermittent illegal stoppages of work and finally illegal confinement lasting until midnight of a Company's officer on 14th August. He had to be eventually rescued by the police. In the meantime production, which had been dropping gradually, had been reduced to virtually nil in one factory and to a completely uneconomic level in the other factory. Under these circumstances, the Company was left with no option but to close its Calcutta factories on 16th August. From the same date, the employees attached to Head Office and Research Department went on strike. Demonstrations and slogan shouting, with free use of abusive language, continued thereafter for nearly 8 weeks, and officers as well as ladies on our staff had to be rescued on several occasions by the police on the strength of search warrants issued by

the Court. After several tripartite meetings, an agreement was finally reached on 8th October, and the two factories re-opened on the 9th. The strike at the other two establishments was withdrawn from that date. As I have said before, the profit for the year reflects the very serious impact of these events. I would like to believe that the workmen realise that until and unless they identify themselves with the prosperity of the Company, their earnings and employment potential must necessarily be seriously affected and in the long run be in jeopardy. It is most unfortunate that West Bengal, which has suffered a severe recession in 1966 and 1967, and which should now be recovering from it as are other parts of our country, has been unable to register anything like the industrial growth rate that many other comparable States have been able to achieve. There is virtually no capital formation and reports continue to be heard of flight of capital. This must, in a large measure, be attributed to the most unsatisfactory industrial relations climate, militant trade unionism, and the law and order problem in the State. If this declining trend in industrial investment continues, it will have the most serious repercussions not only on the economy of the State but that of the whole country. If the industrial climate improves and the law and order situation is what one normally expects in any well administered State, there is no reason why West Bengal should lag behind other parts of India in industrial growth and progress.

In the Company's establishments outside West Bengal industrial relations were satisfactory and a three-year agreement on bonus was concluded. I wish to thank all employees for their co-operation in this connection. I would also like to pay a tribute to the Company's management staff and ladies at Calcutta who bore up with the severe ordeal during the closure period with great courage and devotion, and to our drivers and watch and ward staff who attended to their duties during that period.

MANAGING DIRECTOR

Mr D I Allport who came to India in March last year, will be leaving in August to take up a senior appointment with Metal Box in England. It is the Board's intention to appoint Mr P K Nanda to succeed Mr Allport as the Managing Director. The Board also proposes to appoint Mr A Ray as the Deputy Managing Director. We are grateful to Mr Allport for his able stewardship during this short but what

turned out to be one of the most difficult periods in the Company's history. Our best wishes will be with him in his new assignment.

THE FUTURE

The phase of easier raw material supplies which we had hoped to have entered by now, has been further delayed so that it is difficult to forecast to what extent the growing demand for your Company's products can be met in the current year. The increase in prices of tinplate and other costs as a result of the fiscal budget, has compelled

led the Company to increase the selling prices of many of its products, which, coupled with new excise duties, will make some impact on demand. However, we can still look forward to the year with cautious optimism and a fair improvement in profits, given a reasonable supply of raw materials and, more important, a period of relative tranquillity on the industrial front, particularly in West Bengal.

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

MARKETS

Cotton War Is On

Nishtar

THE cotton war is on. The trade seems determined to fight to finish; it has launched a peaceful non-co-operation movement. Nearly all the leading cotton importers have taken a pledge not to associate themselves with the proposed state corporation or any other agency for canalising cotton imports. And the East India Cotton Association President Madanmohan Ruia has resigned from the committee of the Federation of Indian Chambers of Commerce and Industry which did not even participate in the biggest ever cotton conference held recently in Delhi. The preliminary work for the setting up of an all-India cotton federation to fight for the rights of the trade is nearly over and formal recognition is expected within two months or so. Meanwhile, regional conferences are being organised to mobilise public opinion and consolidate the support of the farmers against the Government's move for taking over imports and internal procurement and distribution of cotton.

Reports from New Delhi indicate that completely unmindful of the trade's decision to boycott the proposed import agency, the Government is going ahead with its plans to set up a separate corporation to undertake the import of cotton from the beginning of the new season. It should not be very difficult to get hold of experienced and knowledgeable men to handle cotton imports. But this is not enough. What is relevant is whether a public sector agency can do the job more efficiently to the full satisfaction of mills than the private trade. Unfortunately public sector undertakings do not have much reputation for efficient working. Can one hope that the Government will give up

the canalisation scheme if it is unable to do the job well? Imports involve valuable foreign exchange and even small errors of judgment can prove quite costly. Cotton is not easy to handle.

Since Government is firmly committed to canalisation of imports there is very little that the trade can do to make it change its mind. But Government has made no such commitment in regard to the take-over of internal trade in cotton. It would therefore be well-advised not to get itself involved in this risky business. Finance may not pose a big problem; Government can manage it anyhow. But the take-over will involve serious organisational problems. It will call for an elaborate and efficient procurement and distribution system. Where are the right type of men to handle an intricate commodity like cotton? Since even the growers do not seem to be favourably disposed to the take-over plans, Government would do well to leave the trade alone and engage itself in more purposeful economic activity.

Reports from all the important cotton producing areas indicate excellent weather conditions. Kharif crop prospects are rated very high. But this has not had even the slightest effect on the cotton market where most varieties continue to be quoted around their record high levels. Quality cottons are fetching scarcity prices. Turnover in the cotton market is restricted essentially by the volume of offerings.

Unusually Kind

THE monsoon has been unusually kind this year so far. It started early and

its subsequent progress has been very satisfactory. Indeed, rarely have weather conditions been known to be so good. Hopes of record *khairif* crops — of course, many crucial weeks still lie ahead — have brought about a welcome change in market psychology. The oilseeds bulls who had been sitting tight all this while have begun to feel uneasy. Offerings have been on the increase recently. Prices have suffered a renewed setback. Linseed futures (September) which had been bid up to Rs 177.50 on July 3 were sold down to Rs 167.50 on July 8 and castor futures have eased from Rs 144.12 to Rs 139 (per quintal). Groundnut oil (ready) which had rallied from Rs 5,050 to Rs 5,225 (per tonne) in the preceding week is down again to around Rs 5,050. Linseed oil has receded from Rs 3,950 to Rs 3,800. Only castor oil has kept steady on export buying.

While it is essentially the good weather which has brought about a marked change in trading sentiment, certain other influences have also been at work. Vanaspati and soap manufacturers, who have been dominating the scene all along, have turned very quiet; most of them are well covered for their requirements in the months ahead. Vanaspati prices have been kept unchanged and instead soyabean oil usage has been further reduced by about 2.5 per cent in the northern and eastern zones and by 7.5 per cent in the western and southern zones. India has been permitted to purchase another 20,000 tonnes of mutton tallow under US AID. With the 40,000/43,000 tonnes already on the way, soap industry is assured of regular supply of mutton tallow. With groundnut oil October delivery nominally mentioned around Rs 3,800 — about Rs 1,200 a tonne below the spot price — it is doubtful whether stockists will like to hold on to their goods in the hope of realising better prices at the fag-end of the season.

News from the export front continue to be quite pleasing. Further good business has been reported in groundnut extractions, linseed extractions and castor oil. The UK and Japan have been main buyers in groundnut extractions while linseed extractions and castor oil have been purchased mainly by Communist countries. Downward revision of Brazilian castorseed crop has led to a substantial rise in castor oil prices in international markets. But despite the recent spurt in overseas prices, Indian castor oil continues to be quoted substantially above world parity — about £ 50 to £ 60 a tonne. Russia is the only major buyer of Indian castor oil and business is not on a strictly commercial basis.

On the Retreat

THE mood of hesitancy has given way to a reactionary feeling and the stock market has been on the retreat. The retreat however has been very orderly. The corporate news has, on the whole, been quite encouraging but only a few counters have managed to wind up the week with net gains. In view of the fairly prolonged bullish phase, it is not the least surprising that the market should take a pause to have a fresh look at the various bull and bear factors and measure its strength to face the hazards of a journey on the higher altitudes.

While the setback is essentially technical, the market has also had to contend with some adverse influences. Perhaps the greatest disappointment was caused by reports discounting prospects of early resumption of forward trading. Both Indira Gandhi and Chavan were said to hold the view that it would be politically inexpedient to

lift the ban on forward trading as it would run counter to the spirit of the ruling Party's Bombay resolution recommending ban on forward trading in agricultural commodities. The stock exchange chiefs have met Finance Minister Chavan urging him to permit resumption of forward deals and all that they have to report is that they have had patient hearing.

An important event of the week is the decision of the Bombay Stock Exchange authorities to allow 'budda' charges to find their own level instead of pegging up at 12 per cent per annum. The making-up prices have also been raised to the prevailing market prices, though a large portion of the increase has been impounded in order to ensure market stability. These measures will tend to restore normalcy to the market and clear the way for resumption of forward trading. 'Budda' rates at the turn of the settlement were lower than the previous fixed rate of 12 per cent.

5 3/4 Per Cent Maharashtra State Development Loan, 1982.

Issue Price Rs. 100-00 for Every Rs. 100-00.
Open on Wednesday, the 15th July 1970.

The loan will be closed as soon as the total amount of Rs 19.25 crores has been subscribed and in any case not later than the close of business on the 21st July 1970.

The applications for the loan will be received at:

- the offices of the Reserve Bank of India, Bangalore, Bombay (Fort and Byculla), Calcutta, Hyderabad, Kanpur, Madras, Nagpur, New Delhi and Patna;
- the branch of the State Bank of Bikaner and Jaipur at Jaipur;
- the branches of the State Bank of Hyderabad conducting Government Treasury work within the State of Maharashtra;
- the branches of the State Bank of India within the State of Maharashtra except at Bombay and Nagpur and at places covered by item (c).

Full particulars can be obtained at any of the offices mentioned above.

Dop 179/70

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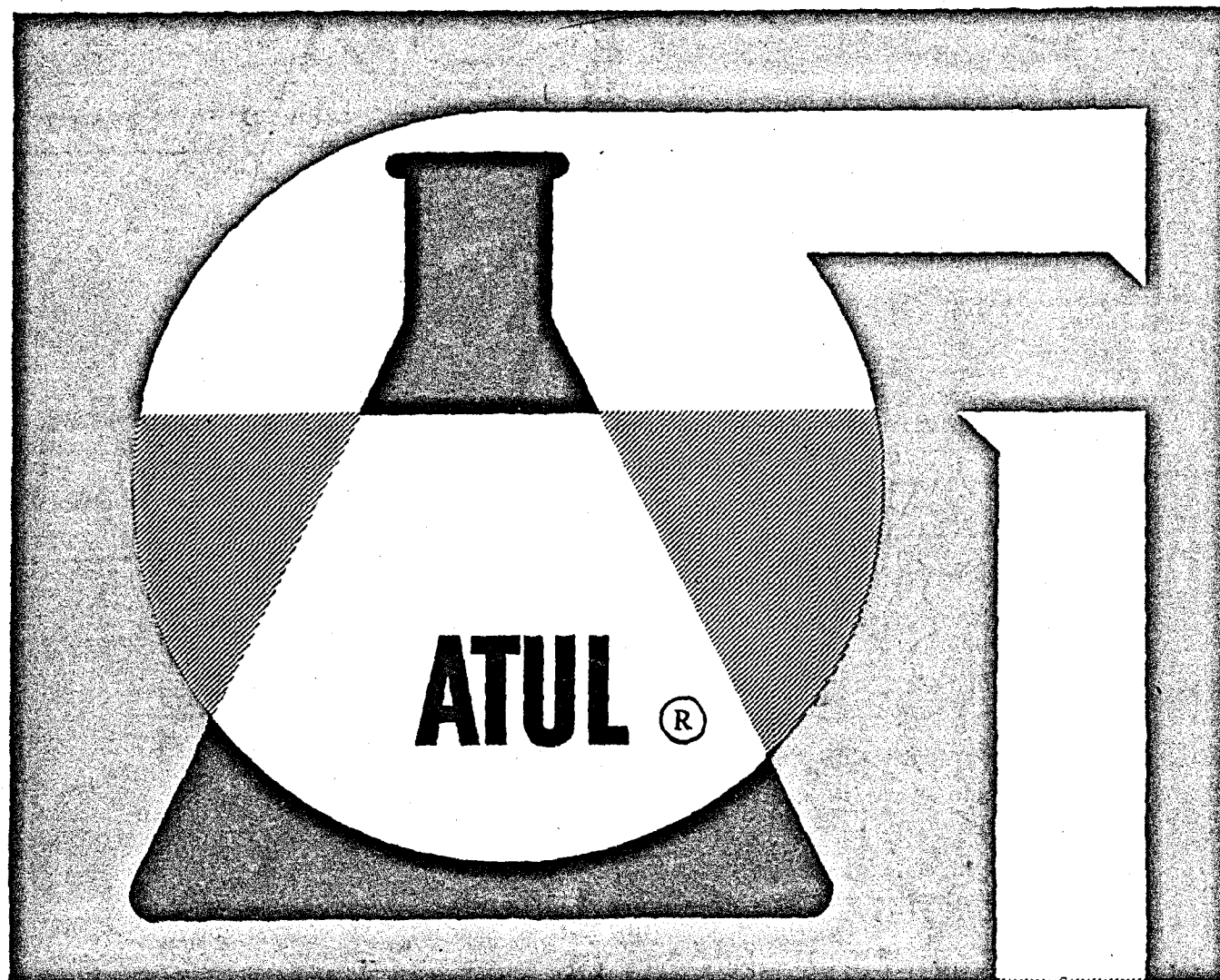
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Vol V No 32

August 8, 1970

THE POLITICS OF STEEL

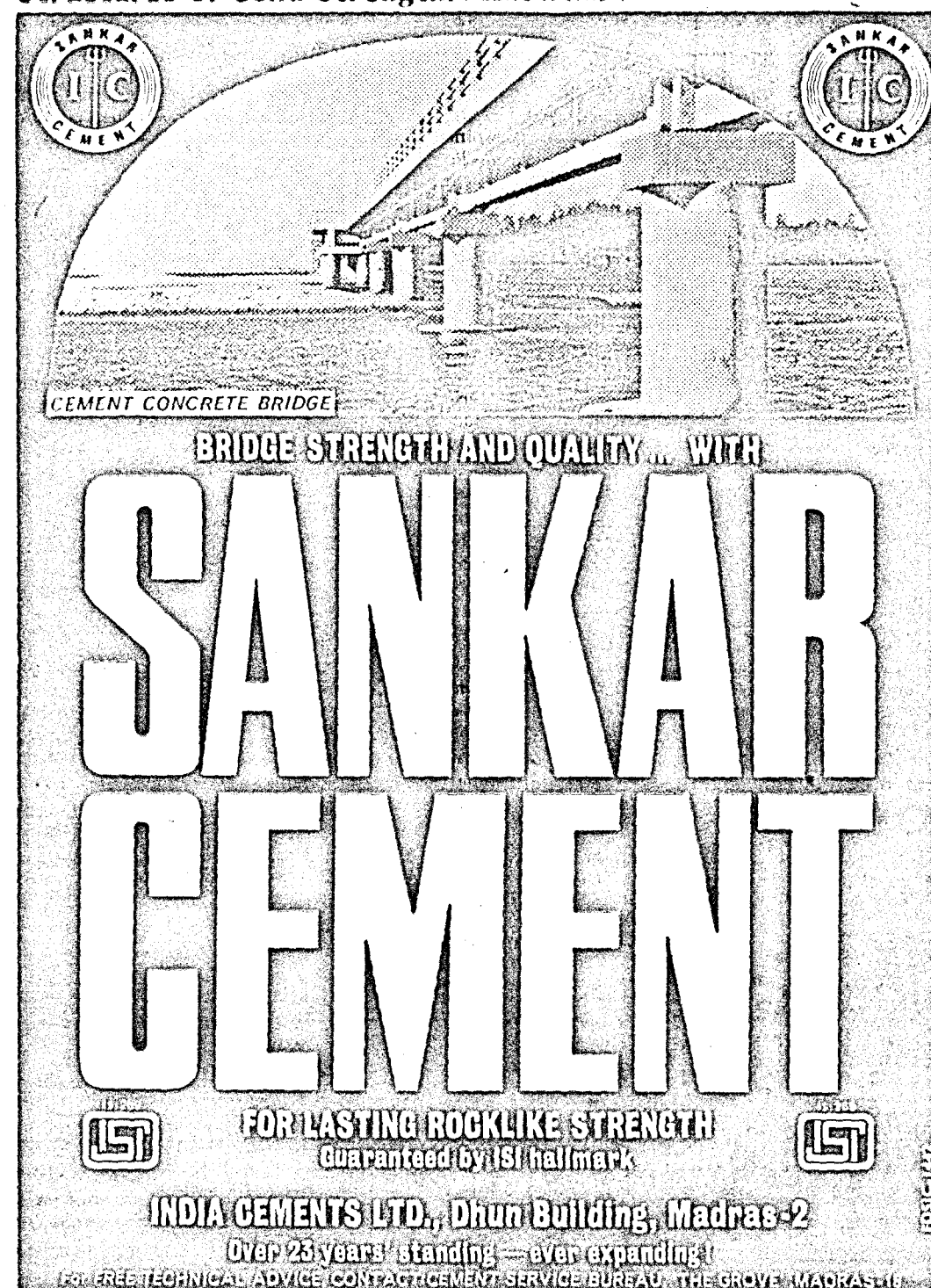
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ECONOMIC AND POLITICAL WEEKLY

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ECONOMIC AND POLITICAL WEEKLY

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Two into Three Won't Go

A LONG sequence of intertwined moves has at last led to the cease-fire between Egypt and Israel. Towards the end of last year, Israel began a series of air-raids penetrating deep into Egypt and culminating in the killing of 38 school-children at Bahr Al-Bakar. These raids were in retaliation for Egyptian beligerence on the Suez front and were intended to cow the Egyptian people into quietude. But the bombing had, as always, the opposite effect. The angry Egyptian response made Nasser visit Moscow last January. Moscow, probably worried over the danger to its large economic and military investment in Egypt, sent in Russian combat personnel to install and operate a sophisticated new air defence system. For the first time, the Americans became seriously worried about the possibility of a Cuba-type confrontation with Russia, an eventuality which also began to worry the Russians. At the end of last June, the Americans put forward peace proposals, largely based on the Security Council resolution of November 22, 1967. In one respect, the American proposals differed from the resolution. They suggested a definite three-month cease-fire which has now been accepted by Israel and Egypt.

The four cardinal points of the Security Council resolution are: withdrawal of Israeli armed forces from all Arab territories occupied during the June 1967 war, recognition of the right of all nations in the area "to live in peace within secure and recognised boundaries", unhindered passage of Israeli shipping through the Suez Canal and the Straits of Tiran and commencement of negotiations under a UN mediator. This resolution was tacitly accepted by both the Israelis and the Arabs only in the negative sense that it was not outrightly rejected by either party. To the Arabs, the key clause is the one calling for withdrawal of the Israelis from occupied territories. To the Israelis, the important clauses are those calling for recognition of international boundaries and unhindered passage of Israeli shipping. Each side expects the other to carry out what it considers to be the operative parts of the resolution. The result, so far, had been deadlock in diplomacy and escalation of armed conflict.

The cause and effect of the rising tempo of the fighting has been the progressively deeper involvement in the conflict of all the varied interests which have, or claim to have, a stake in the Middle East. A complex situation has become even more complicated. From this welter of clashing interests one new factor of political significance has emerged since 1967. The Palestinian liberation organisations have become a major political force beholden to no existing state and dependent on the support of a hitherto ignored people — the Palestinian Arabs. If there is any one element which can be isolated as the progenitor of a new flexibility in the policies of the Arab states, particularly Egypt, it is the fear that the Palestinian guerillas are likely to gain further support not only among Palestinians but also in the wider Arab world, so posing a threat to the stability of the established regimes in Jordan, Egypt, Lebanon and perhaps, even Syria and Iraq.

Nasser's response to the emergence of the Palestinians as a major factor has been to step up military activity on the Suez front and at the same time tentatively put out peace-feelers. This is, of course, related to the second important new factor in the Middle East, the presence of Russian military men not merely giving advice but operating an air defence system which has deterred the Israelis from deep air-raids into Egypt. It can be surmised that the Russians and the Egyptians, both alarmed by forces they could not control — the Palestinian commandos — and the Russians worried about the likelihood of the sporadic fighting across the Suez Canal triggering off another full-scale war which could only lead to one more military and political defeat for Nasser, their closest ally in the Middle East, worked out a bargain during Nasser's 19-day stay in Moscow last month. Egypt would accept the American peace plan mooted in the last week of June if the Russians would ensure the security of Egypt in case the negotiations failed.

A similar arrangement seems to have been worked out between the Americans and the Israelis. On June 29, Golda Meir explicitly rejected the possibility of a three month cease-fire. Since then, American pressures and promises and the withdrawal of the right-wing Gahal party from the Israeli cabinet have facilitated the acceptance of the cease-fire.

Negotiations under the UN mediator, Gunnar Jarring, are to follow. However flexible the negotiators may decide to be and whatever pressure the United States and the Soviet Union may exert on them in the direction of peace, any negotiated agreement between the Arab states and Israel is unlikely to succeed, as the Arab-Israeli conflict is no longer two-dimensional. The third dimension is the armed resistance of the Palestinian Arabs. Those — the Arab states, Israel, USA and USSR — who have at last agreed to negotiations have failed to, or do not wish to, consider this third dimension. Since the Palestinian commandos cannot be effectively pressurised by any external agency to accept a peace unjust to them, there seems to be no likelihood of a lasting peace in the Middle East till there is some move towards the setting up of an independent Palestinian state. There will be many more years of unfortunate bitterness before Israel, Egypt and Jordan have governments popular, progressive and, thereby, strong enough to concede part of the land hitherto occupied by them in order to allow the creation of a homeland for the dispossessed Palestinians.

Not at Face Value

DURING the past week prominent advertisements by pharmaceutical companies announcing reductions in the prices of their products, have appeared in the newspapers. The price reductions, the advertisements said, had been made according to the provisions of the Drugs (Prices Control) Order, 1970. This publicity campaign was capped by a large advertisement by the Organisation of Pharmaceutical Producers of India, which claims to represent "companies that produce over Rs 200 crores worth of drugs or 80 per cent of India's requirements". The advertisement claimed that members of the OPPI had reduced the retail price of over 1,100 drugs including antibiotics, sulphas, vitamins, hormones, antidiabetics, and so on. It further claimed that the reductions had been made to "demonstrate the industry's co-operation with the Government".

A notable feature of the advertisements was that they were inserted mainly by the foreign-controlled drug companies. The smaller Indian manufacturers, it is true, have a special grievance against price control, in that by reducing the price differential be-

tween the products of the foreign companies and comparable products of their own, price control has further weakened their competitive position. So far, while their products were less well known and far less expensively promoted, they had the advantage of being in many cases substantially cheaper than the well known brands marketed by the foreign companies. Because of the forced reduction in the prices of the latter this advantage has been considerably eroded.

It is, however, difficult to believe that the concerted publicity campaign by the foreign pharmaceutical companies, while even the bigger of the Indian companies have attempted no such fanfare, was intended only to "demonstrate the industry's co-operation with the Government". Is there a *quid pro quo*, one wonders. It will be recalled that during the negotiations between the industry and Government which preceded the promulgation of the Prices Control Order, top executives of the international drug companies which have units here, had visited this country. One of their concerns naturally was to try to reduce, by as much as possible, the rigour of the projected price control, but another subject which figured prominently in their discussions with Government was the amendment of the legislation on patents. A Bill on this subject has been before Parliament for one forgets how many years; its enactment has been held up mainly because of the opposition of the foreign pharmaceutical companies. In the circumstances, the suspicion is difficult to avoid, that the recent elaborate show of "co-operation with the Government" has been arranged in the expectation that it will evoke a sympathetic response on the patents question from Government. Will Government oblige?

The other interesting thing about the recent advertisements is that they are totally at variance with the pharmaceutical companies' attitude to price control till the other day. They had, in fact, used all available weapons, including oblique threats of discontinuing production of certain essential drugs, to stave off price control. The complete change in their attitude is thus striking. Even more striking is the fact that, while they have gone to considerable trouble and expense to publicise their anxiety to co-operate in the implementation of price control, many spokesmen of the industry have sought to make out in private conversations that the price control has failed or even that it has been an "eyewash".

They have been only too ready to quote statistics to show that no significant reduction has been in fact achieved in prices of "essential" drugs. The reports which have appeared post-haste in certain newspapers suggesting that drug price control has failed, also attract attention in this context. Normally, facts about the pharmaceutical industry are difficult to come by; but these recent reports have been generally full of factual data about prices — which of them have gone up and by how much. Was the industry itself perhaps the source of all this information?

While the pharmaceutical industry has for the moment submitted to the measure, it has evidently not given up the attempt to discredit price control in the public eye so that when the time comes to lobby for softening of the control, scheme, public opinion will not be on the side of Government. It may be that prices of less essential preparations like tonics, etc, have been reduced more steeply than those of certain essential drugs, but this is because the earlier mark-ups were nothing short of fantastic in the case of the former, some of which, incidentally, are major money-spinners for their makers. Obviously, a more independent assessment of the impact of price control is necessary before the measure is written off as a failure.

Pound for Penny

IT would be hard for the Tories to convince anyone that they are seriously considering the possibility of maintaining a substantial British military presence East of Suez. The main plank of the Conservative platform that helped the party to come to power, belying all forecasts, was the promise of tax cuts. Nothing is more important for Heath than to live up to the expectations of the British middle class. The cost of any kind of British military presence in Asia can be so high that any government contemplating such a measure

A Correction

Ashok Rudra wishes to acknowledge that the statistical work for his article "In Search of the Capitalist Farmer" (Review of Agriculture, June 1970, p A-85) was done by Jayanta Dutta and not Jayanta Banerji as was printed.

—Ed

should be prepared to levy more and not less taxes on the British people. Economic considerations apart, Heath will find it difficult to reconcile the idea of an East of Suez presence with what is obviously a more important goal for him — Britain's entry into the Common Market. Any British concern for South-East Asia would be interpreted in many European countries as resulting from American pressures; it would convince the French, if no one else, that the old Gaullist objection to the American Trojan Horse still remains valid. Moreover, the extent of British dissociation from its white Commonwealth associates is regarded in Europe as the real measure of its conversion to genuine Europeanism. A British presence in Asia is a means of living up to the expectations of Australia and New Zealand. It could also well raise the fear that Britain is trying to have the best of both the worlds.

Yet, it would be wrong to dismiss Tory foreign policy as nothing but a continuation of the Labour Party's approach. The crucial issues on which the new British Government may seek to alter the British stance are those of the country's attitudes to Rhodesia and South Africa. While continuing to pay lip service to anti-racial principles, London may well try to create new areas of co-operation with both of these racist States. Naval co-operation with South Africa is already taking place. A new approach to Rhodesia is also being considered. Apart from the fact that a British role in linking up the four white powers of the southern hemisphere — Australia, South Africa, Rhodesia and New Zealand may be welcome to many in those countries, it would also be relished by the forces in Britain which Enoch Powell has so viciously aroused. The problem of putting the square peg of British foreign policy into the round hole of its domestic politics could thus be more easily resolved. That this may create formidable problems in Britain's relationships with the new members of the Commonwealth should not deter the Tories; the benefits that Britain now derives from the new Commonwealth are not crucial. A movement away from the new coloured Commonwealth to the old white one, may well be seen in the coming years.

The more immediate goal is to maintain a symbolic presence East of Suez. This will be of little strategic significance in the area, but will still satisfy Malaysia and Singapore as insurance against each other and cheer up the depressed Australians. Even this will be done with

a great deal of difficulty due to domestic economic and political reasons. One advantage for Britain, however, is that with the coming into being of the Suharto regime in Indonesia, the problem of imparting stability to that region has become very much easier. The probability indeed is that while Britain will continue to bear the burden of ensuring stability in an already stable area, it will derive considerable satisfaction from the sight of its more powerful partner suffering a steady erosion of prestige and authority through a meaningless involvement in areas north of Malaysia.

There is less scope for change on issues like Britain's role in NATO, or its special relationship with America or

BUSINESS

Cliches for Export

THE long-awaited export policy resolution has at last been released, after protracted higgling and haggling within the Cabinet. As it turns out, the document is so innocuous that one wonders what all the pother was about.

The resolution refers to the Fourth Plan target of 7 per cent annual growth in exports. In agriculture, production of cash crops with export potential is to be developed. A new emphasis is to be given also to other natural resources — sea-foods, forest resources, minerals. In textiles, "selective modernisation of exporting or export-oriented units" is to be encouraged. Industry, it is claimed, has become more diversified and more efficient; further, our technology is supposedly more relevant to the needs of developing countries. Quality control and preshipment inspection is to be enforced. All forms of assistance is to be given to exporters. To maintain continuity, exports are to be given priority over domestic needs. The State Trading Corporation will build up contacts with trading bodies in other countries. Finally, a word for the foreigners, particularly the developed countries: they must implement the resolutions of the Second UNCTAD, particularly regarding preferences for manufactures of developing countries; and they must not insist on tying aid (to procurement within their borders) but must allow aid to be used for purchases from developing countries.

What does it all add up to? The re-

solution, like similar documents that emanate from the Government, is full of self-congratulation where Government is concerned and abounds in homilies for others. It is devoid of any policy perspective and is silent on precisely those elements which are needed to give an export-orientation to our development effort.

The resolution ignores most of the issues which are relevant to an export strategy for achieving the modest Fourth Plan target of 7 per cent export growth. First, it does not have anything to say on fluctuations in traditional exports. Given the existing composition of our exports, a one per cent fluctuation in traditional exports requires to be compensated by a ten per cent change in non-traditional exports. The poor export performance in 1969-70 was almost entirely due to the indifferent showing of jute goods and tea. The first priority, therefore, has to be to at least stabilise export earnings from non-traditional items.

Second, Government needs to have a clear policy on non-traditional exports. We have been bartering away our mineral resources for a pittance. The export policy resolution seeks to justify this by reference to the "large reserves" of these minerals. Whatever the immediate advantage (which, it seems, is all that the bureaucrats of the Foreign Trade Ministry are interested in), this is a short-sighted policy. A commodity does not have to be exported just be-

cause it is abundant, if it is possible to process it further and export it in a more finished form. One is still to know why we should deplete our iron ore reserves to export ore in vast quantities to Japan so as to enable that country to process it into steel for export (some of it back to us)!

Government also needs to make up its mind whether it wants to have a dual industrial system: an inefficient domestic sector with a modern export-oriented sector (which is what the export policy resolution suggests for textiles). Exports are still not looked upon as part of a natural market for Indian goods, but are treated as an abnormality to be tolerated within limits. It is only a healthy domestic cost-efficiency situation (whatever the differences introduced later by transfer payments, say, through excise duties) which can provide a viable base for exports.

Government also needs to decide whether it wants to fragment its export effort or give it a massive head. Government apparently recognises this in relation to the State Trading Corporation, but the logic is not extended beyond the public sector. In the private sector, Government wants some units to be modernised, imposes export obligations on all and sundry who seek permission to expand and allows exemption to large houses for setting up small export-oriented units. Some sort of industry/house concentration for export (and import) purposes needs to be brought about, if we are to use our limited industrial potential more fully for export purposes.

Finally, the country does need to turn its face from the West to the developing countries in Asia and Africa for its export drive. This requires a different attitude among our bureaucrats (ambassadorial postings in these countries are still deemed 'hardship' postings!) and a more concerted policy of export credits and aid in relation to such exports.

The export policy resolution is lacking in all these directions. What it is not lacking in is clichés: "the country is fortunately endowed with such large reserves...", "the diversification of industrial production and the improvement of its economic efficiency have been assigned an important role in the Fourth Plan...", "there is a growing demand in developing countries for the products of our technology...", "the skills of India's artisans and craftsmen...", "Indian industries have begun to compete in international mar-

kets on the strength of their own inherent efficiency...", and so on and so forth. But, whatever the competitive strength of other Indian products, our clichés do not have an export market.

Wages of Stagnation

TATA Steel's sales increased from Rs 137 crores in 1968-69 to Rs 144 crores in 1969-70. Its profit before tax amounted to Rs 11.33 crores (Rs 9.82 crores in the previous year) and profit after tax and appropriation to development rebate reserve was Rs 3.88 crores (Rs 2.32 crores). This was not sufficient to cover the dividend of Rs 5.27 crores.

There were many reasons for this poor performance, the most important perhaps being Government's attitude to a priority industry like steel. Steel is evidently deemed important enough to be developed in the public sector, but not important enough to be allowed to charge a price adequate to earn a reasonable return. A grudging price increase of, on average, Rs 75 per tonne (which, for Tata Steel's product-mix, works out to Rs 71 per tonne) became effective only from January this year and was reflected in the company's 1969-70 accounts for only three months. And lest anybody should get the impression that Tata Steel will be affluent soon, J R D Tata warns that out of the increase Rs 30 has been already neutralised by rise in costs.

There are, however, other factors which also need to be reflected upon. In a sense Tata Steel has been stagnating since 1958-59; its net block today (Rs 102 crores) is less than it was on March 31, 1958 (Rs 105 crores). In the last five years its capital investment (Rs 56 crores) has been actually less than the depreciation provision (Rs 60 crores), once allowance is made for revaluation of assets (Rs 12 crores) corresponding to foreign loans to allow for devaluation of the rupee. The result is a strong debt-equity position. The World Bank loan is expected to be paid off by June 1971 and the Government of India advance by March 1972. What has stood Tata Steel in good stead is its investments which amounted to over Rs 12 crores at 1969-70-end.

Tata Steel has a modernisation/renovation programme of Rs 106 crores over the next five years. J R D Tata also refers to the possibility of a Rs 100/150 crore expansion programme, though he expresses concern about conversion

of loans from financial institutions into equity — at least in relation to the Rs 20-crore debenture issue immediately in the offing.

Temporary Brake on TELCO

TELCO's sales declined from Rs 106 crores in 1968-69 to Rs 98 crores in 1969-70. This reduced its profit before taxes from Rs 5.82 crores to Rs 2.74 crores. After provision of development rebate reserve of Rs 1.43 crores (there was no tax liability) this left Rs 1.30 crores which was not sufficient to cover the dividend (reduced from 14% per cent to 13% per cent) of Rs 2.21 crores.

Telco's main problem last year was the prolonged strike at its Jamshedpur works. In his annual statement to shareholders J R D Tata, chairman of Telco, blames "political in-fighting in the labour movement amongst our workers at Jamshedpur" for the strike and for the unhappy state of labour relations in the company. While the element of inter-group rivalries among workers is not to be denied, it is as much a fact that labour relations has been one of Telco management's blind spots. The management's insistence that it would deal only with a particular union which had long ceased to enjoy the support of the majority of the workers, or even of a significant proportion of them, was mainly responsible for last year's strike dragging on for days after the company had been compelled to concede a substantial wage increase. The results are seen in, besides the decline in turnover and profits, the increase in stocks and work-in-progress from Rs 33 crores to Rs 47 crores.

Telco, of course, still remains a leader in many fields. By its output and sales it would perhaps be deemed to be a monopolistic undertaking, reflecting, besides its own efficiency, the total incompetence of its competitors. Despite the change-over to the Tata name, its exports more than doubled in 1969-70. And it can well take pride in its research and development facilities — an investment in the future.

Telco started with locomotive manufacture (an activity that finally ceased this year), but it struck a gold-mine in the Mercedes-Benz truck. Considering the fact that Telco was the last to start manufacture, its success shows what an efficient management not interested in manoeuvring import licences can achieve

by adhering strictly to its commitments.

Government's policy on automobiles remains typically ambivalent. Road transport can be a major source of employment, but the railways have continuously acted as a lobby to hamper its development to cover up their own incompetence. In his speech J R D Tata expresses Telco's readiness to manufacture passenger cars if it is permitted to do so. Government, indecisive as ever about whether a new passenger car unit, if there is to be one at all, should be in the public sector or the private sector, has still to make up its mind.

Too Long in the Air

THE seminar held sometime back at New Delhi by the Indian Paper Makers' Association, on the requirements for expansion of the paper industry broke no new ground. The papers presented lacked the long-term perspective that a growing industry can ill afford to do without. The presence of senior Government officials merely provoked spokesmen of the industry to press home their plea for speedy clearance of their import licence applications for machinery. The need to raise newsprint output was not even mentioned since newsprint is something which the paper industry would like to leave alone if it could.

The fact remains that paper is in short supply and indications are that it will remain so. For, though the industry is delicensed and prices have been decontrolled, barring expansion which is in fact diversification into special varieties of a few of the existing mills, no new unit is being promoted. The constraints on achieving a quick expansion of output are twofold: First, the capital-intensive nature of the industry and the long gestation period involved (about 3 to 4 years) and secondly, the difficulties in the way of raw material availability. Funds needed to achieve an additional output of about 360,000 tonnes by 1973-74 are estimated at around Rs 180 crores. Of these hardly about Rs 50 to Rs 60 crores are expected to come out of the cash accruals of the industry, leaving nearly Rs 120 crores to be met out of new capital and borrowings.

Inevitably the seminar made out the age-old case for relaxing the normal constraints on financing patterns such as the debt-equity ratio, etc, but predictably failed to spell out in details any plans for increasing the output of

paper. Poddar of (Rohtas) in his paper on a crash programme for increased production pointed out that by installing balancing equipment — on the pulp side by resorting to hard cooking and on the paper side by changing the drive motors, gear boxes and adding suction presses, vapour hoods, beaters and refiners — output could be increased at least marginally. The nub of the problem here is the delivery periods for the equipment. If the experience of one company is any indication, motors (for changing the drive) can be had (incidentally, only from public sector projects) in not less than 18 to 20 months.

But raw materials remain the central and most interesting problem concerning the industry. Here nothing significant or new was said at the seminar. That there is clearly need for proper forest management both for sharing out existing forest reserves and for planning more scientifically for their development, is without any doubt crucial but the work initiated on this is far below requirements. Of the paper mills, only West Coast has had the foresight to tackle this problem. Active co-operation and collaboration of the State Governments will be required here. But unless the industry comes out with detailed planning (be it through balancing equipment or through expansion) to achieve the larger output needed to meet demand, such progress will never come about. Again the idea of a 'mother' pulp unit feeding several 'baby' paper lines was mooted, but like other ideas, unless it is concretely spelt out, it will not contribute to the growth of the industry.

LETTERS TO EDITOR

When Aid Becomes a Dirty Word

WHILE I find your correspondent's remarks ("When Aid Becomes a Dirty Word", July 11, p 1066) interesting since they focus on an important problem, namely that of export credit financing by developing countries, the piece contains a comment on the alleged attitude of the World Bank which is quite at variance with the position which the Bank has taken on this question.

Part of the burden of your correspondent's remarks is that the Bank, in the interests of the developed countries, has discouraged the developing countries from extending long-term export credits, particularly for capital equip-

ment. While the Bank recognises that the extension of such credits by developing countries may present short term balance of payments problems to them, it also is fully cognisant that without adequate export credit facilities, developing countries including India, may find it difficult to hold their own in the very competitive export market for capital equipment. The Bank has drawn attention to this problem particularly in the context of its analysis of the aid requirements of developing countries with capital goods producing industries and suggested that the latter consider the need for adequate export credit facilities.

O J McDIARMID

Resident Representative in India
IBRD
New Delhi
July 27

No Longer Welcome

THE attention of the Sikkim Chamber of Commerce has been drawn to the report from your correspondent titled "No Longer Welcome" (June 6, p 902). A paragraph in the report reads: "How touchy nationalist feelings are in Sikkim is again made evident by a minor incident. Whenever the Chogyal goes out of Gangtok even on a two day shopping mission to Calcutta or Hong Kong, the business community composed of Indians settled in Sikkim for the past four or five generations is expected to erect welcome gates right from Bongpo, a border town touching the Darjeeling district of West Bengal, to his palace".

This is a blatant misrepresentation of the facts. If at times the business community erects such arches in honour of either the Chogyal or any other visiting high dignitary from India, it does so as a gesture of goodwill. The act is always spontaneous and no external agency has at any time tried to persuade the business community to erect welcome gates. The normal practice is for members of the representative body of the business community to decide among themselves whenever a suitable occasion presents itself.

Your correspondent's reports can only harm the interests of the Indian business community in Sikkim which has always been free to pursue its normal activities without the least hindrance from the Government of Sikkim. The business community has always enjoyed the benignity of the Chogyal of Sikkim who is very wise and just.

Sikkim Chamber of Commerce
Gangtok.

Preparing for Action?

Romesh Thapar

THE other day, a leading executive of a major public sector corporation gave me an example of how the developing economic crisis is beginning to overwhelm "the system". Recently, an advertisement was released calling for applications for field staff — about sixty-odd vacancies carrying a pay packet of some Rs 1,000 (including allowances of various kinds). The public sector corporation was deluged with nearly forty thousand applications! The problem now is how to process the applications...

UNHAPPY FATE

Indira Gandhi, in the midst of chatter about "grand alliances", has been working on plans to create job opportunities for skilled or trained personnel and to link these plans to mass employment. The concept of a Land Army, properly financed and led, unleashing a massive rural works programme is beginning to crystallise. The Prime Minister referred to this in Parliament, but the "credibility gap" persists. The feeling is that the bureaucrats who will be entrusted with the business of working out details are likely to so arrange the "accountability" procedures that nothing will get started in time. This is the unhappy fate of even less ambitious projects.

It is a pity that Indira Gandhi did not decentralise financial powers during her short tenure as Finance Minister. Had this been done, despite the opposition in the Ministry of the rather limited men who halt implementation with their silly questions, it would have been easier to launch the urgent programmes now needed and to expect speedy results. Her successor cannot be expected to begin his regime by divesting himself of powers — although he would earn the gratitude of an exhausted nation if he did so! In the circumstances, some new way must be found to re-define accountability and to make it result-oriented.

Whether we are in for an early election or not — and the monsoon assessments will be a major factor in the decision even though politicians are loth to admit this — a number of vital actions are waiting to be launched. The parliamentary session acts as the natural

block to forward movement, but events are conspiring to force the hands of the GOI. Bengal, now under President's rule, must be given a leadership capable of massive politicalised interventions; a youthful administrative team must be established which has a stake in the future. If Kerala is cooling down, Maharashtra is moody; the States of the Union are problem-ridden.

Our industrial paralysis cannot be perpetuated merely because some political oafs imagine that only monopoly has to be curbed and fail to espouse the problems of the small and middle entrepreneur: jobs are not created by the slogans of these gullible radicals. The abortion of our own scientific and technological development by dull-witted GOI negotiators and their opportunist opposite members in the private sector must be seen as a major threat to national revival; specialist opinion

must be summoned and listened to without the old pomposity of the all-knowing civil servant. And a certain discipline must be restored to the productive apparatus even if it means a frontal confrontation with irresponsible and dishonest trade unionism.

WHERE TO BEGIN

These are no ordinary tasks, but the survival and growth of the ruling Congress party will depend on how they are tackled. Naturally, attention is focused solidly on the doings of the Cabinet Secretariat and the Prime Minister's Secretariat, particularly the latter. The structuring of these vital elements in the decision-making process is so *ad hoc* and primitive that anybody with a modicum of intelligence is deeply concerned about the future. In other words, Indira Gandhi has to begin the streamlining in her own back-yard if she wants to break the back of the economic and social problems which surround her.

August 3

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Fighters All

Nireekshak

FROM the 'tigers' of Vietnam to the 'lion' of Kashmir, and from a Cabinet reshuffle to the birth, growth and decline of the 'grand alliance' — much indeed has held the attention of the Press in the three weeks since this column last appeared. While the discovery of the 'tiger cages' of Vietnam caused but a minor flurry, with all the big papers conspicuously ignoring it, almost everyone predictably went to town over the 'grand alliance'.

Free Press Journal, among the not-so-big ones, described the tiger cages quite simply but effectively as "inhuman". The burden of its editorial comment was that as atrocities had continued to pile one upon another in Vietnam it was probably pointless to single out any particular atrocity for special condemnation; "it is only when the war itself is terminated that one can reasonably hope for a return to sanity and civilised ways in Vietnam". *Tribune* lamented that "unfortunately for mankind, 'hanging gardens' and torture chambers have yet to become things of the past... a more flagrant violation of human rights [than in this case] is difficult to find". And in the view of *Mail*, the cages were a test for the "conscience of humanity". "Inured as it is to stories of inhumanity in different parts of the world, especially to war prisoners, the world will still be shocked by the report of the brutal treatment of South Vietnamese prisoners... Is this President Nixon's method of Vietnamising the war?"

The Cabinet reshuffle, too, appeared to leave everyone dissatisfied though, of course, for different reasons. "No rationale", wrote *Anurita Bazar Patrika*. "What will cause intense surprise to the point of bewilderment is the distribution of the portfolios among the senior Ministers... It is difficult to find a rationale behind the changes. Whether the image will improve is by no means a certainty... Rewards for loyalty have been generously distributed but not all aspirants can be satisfied." *Deccan Chronicle* had it that it was an "ominous reshuffle". For, it argued, "the reshuffle may well take the country nearer the mid-term elections. Had the Prime Minister gone to the people immediately after the great split, she would have taken the Ruling Congress back to power with a comfortable major-

ity... The lapse of time has proved detrimental to her and her recent pronouncements have laid bare the harsh truth that socialism cannot be brought about by miracles... All that the re-constituted team can do perhaps is to carry on the job in a caretaker position until the time ripens for a mid-term poll."

Meanwhile, reporting from Delhi, Ranajit Roy of *Hindustan Standard* asked: "what for did Mrs Gandhi reshuffle her Cabinet?" According to him "what is obvious is that tensions among the senior ministers have increased. Government work has not come to a standstill, but there is reluctance among some of Mrs Gandhi's Cabinet colleagues to take policy decisions on their own." Also, "Mrs Gandhi will have to work practically with her old team. The rationale behind the changes may be that the Prime Minister wants to make the Government more dynamic and purposeful. How she hopes to achieve this merely by shifting ministers from one portfolio to another is a mystery that remains to be unravelled."

There was near-unanimity, again, in editorial opinion on the Kashmir issue except that, unlike the Cabinet reshuffle, this reflected favourably on the Prime Minister. It was her remarks during her recent visit to Kashmir that formed the main subject of comment, and the lion of Kashmir, Sheikh Abdullah, figured in it only indirectly. "Issue finally settled", wrote *Indian Nation*. "Prime Minister Indira Gandhi deserves commendation even from her political critics for the unqualified declaration that the Kashmir issue cannot be reopened," the paper said.

Indian Express too said of Kashmir that it was "a closed chapter". "The Prime Minister's plain speaking during her short visit to Kashmir should have a sobering effect on the secessionist forces in the valley", the paper said. Saying that "recent developments have encouraged the Plebiscite Front and other secessionist groups in the State in a variety of ways", *Express* pointed out that "Mrs Gandhi's plain assertion that Kashmir's accession is a closed chapter should do a great deal to remove the doubts and uncertainties created during the past few years."

The most prominent, as also the most

contentious, subject of discussion in the period under review, however, has been the "grand alliance". Quite a few commentators, who allowed their enthusiasm for the alliance to run wild early on must have felt cheated when the alliance idea, as originally conceived, petered out. Some have already recorded their frustration, while others, particularly the special correspondents, are yet to pronounce final judgment. *Statesman*, for example, which was one of the newspapers that had welcomed the AICC (O) resolution with unconcealed enthusiasm soon found itself criticising Nijalingappa for his "misplaced apology". Nijalingappa's comments, the paper said, "strike a note of apology markedly inconsistent with the Congress (O)'s resolution... and their effect must be to dilute much of the impetus it has acquired... The invitation is to make the Congress split meaningful; and to identify hitherto private conviction with public commitment. Compromise and apology are thus entirely misplaced in conditions which call for an early follow-through on the Congress (O) resolution in concert with the like-minded." This was on July 9.

Nineteen days later, on July 28, the paper bore witness to "the vanished alliance". If hopes of a "national democratic bloc" in Parliament had vanished, it wrote, it was not for lack of response to the Congress initiative "but because of disagreement within the Organisation Congress itself". After detailing these disagreements the paper said: "All this does not diminish either the validity of, or the need for, an alliance of all nationalist and democratic forces, as both a shield against the growing dangers to the democratic system and an antidote to the politics of fragmentation."

Among commentators, Nayantra Sahgal, who writes regularly for *Sunday Standard*, should probably be the most disillusioned. "A free future is worth fighting for", she had written on July 26. "In this kind of emergency, of course, there must be a coming together of non-like-minded people, as there is in time of war. And, of course, the Jan Sangh and the Swatantra must figure in it." She was not certain, though, that the alliance would materialise. "Whether this particular move for a front fructifies or not, it is at least an indication that we are awake." Is it, really?

Another commentator, K Ranga-swamy, suggested (*Hitavada*, July 28) that under "pressure of circumstances"

political parties may change their objectives. A former New Delhi correspondent of *Hindu* and now editor of *Foreign News and Features*, Rangaswamy thought the stage had been set for "the formation of a united opposition front in Parliament". His main the-

FROM OUR CORRESPONDENTS

NEW DELHI

The Politics of Steel

THE Prime Minister's announcement that three new steel plants — one at Visakhapatnam in Andhra Pradesh, Hospet in Mysore and Salem in Tamil Nadu — would be set up, and that work on these plants would be taken up during the Fourth Plan, has been hailed as a bold decision to resume industrialisation after a prolonged period of stagnation. In any case, the three southern States in which the new plants are proposed to be located have reason to be gratified. They have made claims to a steel plant for a decade.

The current shortages of steel have greatly revived interest in a steel programme. But there is not all that much reason for jubilation. A close probe into the reasons which have prompted the decisions on the steel programme, and the manner in which the programme has been finalised involving a great deal of window-dressing, leaves one doubting whether there has at all been a serious effort at launching a bold steel programme. There is reason to believe that the Prime Minister has been persuaded to take this course for political reasons. Indeed, the Orissa *bundh* two months after the announcement, with the blessings of Orissa Government, in support of the State's demand for a second steel plant bears further testimony to this belief. Madhya Pradesh too has a long-standing claim to a steel plant in the Bailadilla area. Goa has been investigated as a possible site for a large steel plant and has been found to have merit.

There is no doubt that popular agitations such as the Orissa *bundh*, backed by State Governments, often greatly influence decisions in such matters. It is precisely because such agitations have been allowed to sway decisions in the past that the Orissa *bundh* was organised. In fact, the decision about the three steel plants is said to have been entirely the Prime Minister's with neither the Steel Ministry nor the Planning Com-

mission having been seriously consulted. It is unfortunate that the steel programme should get embroiled in controversies and once again come under such pressures just when the development of the steel industry requires a speedy and techno-economically-based plan.

There is no properly-conceived and well worked-out steel programme in existence — claims by B R Bhagat, the Minister for Steel, that the recent decisions have been based on techno-economic studies of resources and constraints, notwithstanding. The development of the steel industry, which has been in the public sector, has been allowed to be misdirected by non-economic considerations almost from the start.

The attempt to formulate a long-term steel programme, to begin with a 10-year programme, was initiated as far back as in 1961, at the instance of Nehru. This was after the first three steel plants in the public sector had been launched on a turn-key basis with foreign assistance, in the Second Plan. The Steel programme was conceived of as part of an overall plan of industrialisation, dovetailing with the multifarious developmental activities. It was the Planning Commission that prepared this programme in broad outline, in consultation with technical experts.

Unfortunately, before the programme could be put into effect, the tempo of developmental activity had begun to slow down. Subsequently, though much of its thrust was lost, considerable work was initiated on the lines indicated by the proposed steel programme. Several agencies were involved in the demand projections as well as in the selection of sites for new steel plants. Bokaro was chosen as the most promising new site, and expansion of existing steel plants was given high priority. This part of the programme was in fact attempted during the Third Plan. But the steel programme ran into rough weather during the Third Plan itself, mainly on

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account of political pulls and pressures.

There was agitation in Tamil Nadu for a plant at Salem. C Subramaniam, who was then Steel Minister at the Centre, ordered techno-economic studies to be carried out to determine the location of the fifth public sector steel plant. Technical agencies were drafted for this work, but they were placed under the rider that the fifth public sector steel plant had to be either in the South or the West. Several possible sites for a steel plant were thus investigated; it was reported that steel capacities could be created around Goa, Bailadilla, Visakhapatnam and Hospet, while Salem was indicated as being capable of supporting a small sized plant for making special steels.

Before further action could be initiated, the Cabinet reshuffle and the transfer of the Steel portfolio from Subramaniam to Sanjiva Reddy changed the setting radically. Sanjiva Reddy came with a strong mandate from his home State, Andhra, for the fifth public sector steel plant to be sited at Visakhapatnam. His first move, therefore, was to shelve the technical studies that had already been made; he then brought in a British-American consortium to undertake a fresh study. It came as no surprise that the consortium reported, within record time, that Visakhapatnam was the preferred site. Even a cursory study of their report indicates that it was a highly doctored piece of work. The *quid pro quo* was clear. The authors would have the contract to build the plant if they could manage to get suitable credit facilities abroad. The earlier decision that the next public sector plant would be designed by Indians and engineered and constructed by them was thus reversed. This was ironical because, during the negotiations for American aid for Bokaro, it was America's refusal to comply with this principle that had made India withdraw the request for aid to Bokaro.

Sanjiva Reddy's ambitions for Visakhapatnam did not materialise for two reasons. First, he himself was shifted from the Steel Ministry to the Transport Ministry — though not before he had done another disservice, for, in an attempt to justify the British-American consortium's entry for the fifth plant he managed to discredit the Indian agencies involved in Bokaro and hand over the construction of the project to Soviet Union on a turn-key basis. Secondly, the whole steel programme at this stage was scuttled in the panic in face of the growing difficulty in raising resources, the emerging signs of industrial re-

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cession, and the fall in steel demand.

With T N Singh as the new Steel Minister, the violent outburst in Andhra in 1966 for the fifth public sector steel plant had to be borne by him. But the violence failed to have impact on policy because, about this time, Khosla, the then Governor of Orissa, himself a technical expert of repute, took the initiative to advise the Planning Commission and the Steel Ministry that a fifth steel plant in the iron-coal belt within Orissa might achieve the maximum economic advantage. Studies undertaken by the Planning Commission upheld this contention and showed that the cost per tonne of steel produced in a plant in the coal-steel belt was far less than that in any other location. The Planning Commission therefore insisted at this point that no commitment should be made in favour of Visakhapatnam. In fact, earlier technical studies by Indian agencies had shown that Hospet was a better site than Visakhapatnam, and that, even if a coastal location was to be selected, Goa would have an edge over Visakhapatnam.

Such is the backdrop of the Prime Minister's recent announcement of location of the three steel plants, and of the *bundh* that it provoked in Orissa.

TAMIL NADU

A Dent in the Halo

THE Tamil letters *thi mu ka* stand for Dravida Munnetra Kazhagam; they also stand for Thiruvavur Muthuvel Karunanidhi. Long before researchers in the DMK discovered this coincidence and spoke about it publicly, Chief Minister Karunanidhi was silently working at the task of merging the party in himself and acquiring an Annadurai-type halo. During the 15 months that he has been at it, he has very nearly succeeded and the send-off that he got when he left on his first-ever foreign tour was reminiscent of the similar send-off given to the late Annadurai.

Ever since he took over the reins of the party and the Government, Karunanidhi has been having things very much his own way. Nedunchezhiyan, who was number two in the Annadurai Cabinet, was soon tamed into submission. Then the drought, the Presidential election, the split in Congress party, the renaming of Dalmiapuram railway station, the fight for the steel plant at Salem — in short, every opportunity that came the Chief Minister's way was

But what is more disconcerting — because it reflects on the entire process of planning and decision-making — is that the much-publicised 15-year rolling steel programme, on which ostensibly the Prime Minister's announcement regarding the three new steel plants is based, is itself the product of an amateurish attempt at techno-economic analysis by the Steel Ministry without help from reliable experts. While the fresh initiative to respond to the growing steel demand should be welcomed, a 15-year projection cannot be made by a few officials in Ministry. No independent demand studies and no cost-benefit studies have been made in drawing up the programme. Indeed, fresh demand studies were initiated only after the so-called rolling plan had been announced. A committee has been set up in the Steel Ministry, with the Secretary at its head, to make the site selection for the proposed three plants and is expected to make the decision in advance of any techno-economic feasibility studies of the proposed locations by competent technical agencies have been completed. The Ministry's haste to keep the reins tightly in its own hands, lest technical persons assert their views, augurs ill for the country's steel programme.

RECALCITRANT RYOTS

While all this adulation was pouring in, Karunanidhi had to battle with eye-trouble on the one hand and the recalcitrant farmers of Coimbatore on the other. The eye-trouble responded to treatment but not the Coimbatore ryots who in the end took an exacting toll not merely of the State Electricity Board's revenues but also of the DMK's prestige.

The State Electricity Board, which used to charge a concessional rate of 8½ paise per unit (plus a 20 per cent surcharge) to farmers using pump-sets for lifting irrigation water from wells, decided to raise the rate to 10 paise from April 1. The Board was stated

to be incurring an annual loss of Rs 9 crores and hoped to recoup a part of it through the higher rate for power supplied for irrigation purposes. Even the proposed revised rate was only a fraction of what urban consumers of electricity have to pay — 32 paise per unit. Further, farmers in the Coimbatore area have done rather well for themselves out of the new agricultural strategy and the Green Revolution.

All this notwithstanding, the Electricity Board's decision touched off a wave of resentment. Sensing unrest, the Chief Minister promptly announced on April 4 a lower rate of 9 paise per unit for wells more than 75 ft deep, retaining the 10 paise rate for the others. This did not satisfy the Coimbatore farmers, however. A Swatantra MLA went so far as to resign his membership of the Assembly and a former Congress (R) Minister and three MLAs of the same party courted arrest. But the Government sought to appear firm and unyielding. Then, on June 19, there was a police firing at Perumandlur near Coimbatore in which three agitators were killed. The Chief Minister promptly lost his nerve and announced that the lower rate of 9 paise would apply to all farmers irrespective of the depth of their wells.

AFRAID TO STRIKE

Karunanidhi, of course, added that the concession had been offered "in the interest of peace" and that he had never wanted to make a prestige issue of the power rates question. The statement did not deceive those who had seen that there had been mounting pressure from the Chief Minister's own partymen in favour of a settlement. The climbdown at Coimbatore did affect the Chief Minister's prestige though he made quick efforts to refurbish his image by granting a pay rise to the engineers of the Electricity Board whom he had mauled only a few weeks earlier and by keeping himself busy with the numerous send-off parties arranged on the eve of his foreign tour.

The climbdown by the Government at Coimbatore was a shot in the arm for those opposition parties which have been only too willing to wound DMK but have been mortally afraid to strike. Excepting CPM, which has effected a final break with DMK, other parties have continued to feign friendship for it, hiding their numerous grievances. The land grab movement of the CPI, to be launched on August 15 in some

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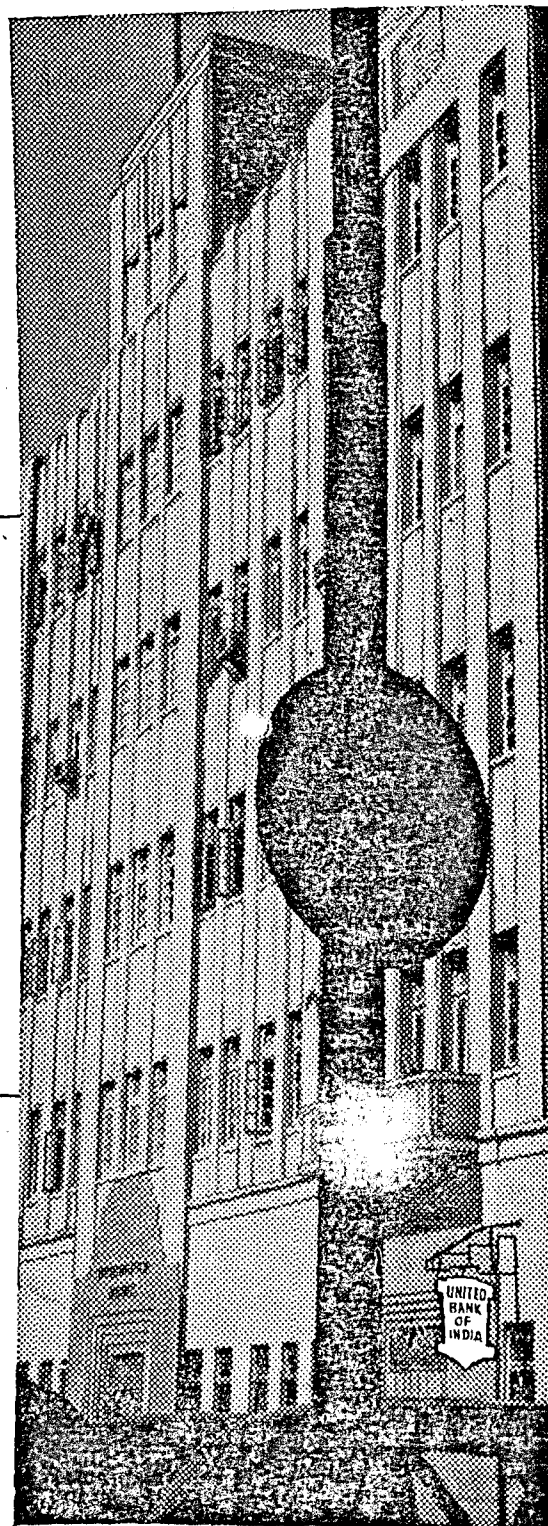
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20 private farms by about 10,000 volunteers, is getting open as well as surreptitious support from other parties. The latest to announce its support is the Tamil Nadu unit of PSP. Other parties, with the exception of Swatantra and Muslim League, will also feel

compelled to make sympathetic noises, if only to reiterate their socialism. The "poet-politician, scholar-statesman, artiste-administrator, dramatist-democrat and talented-tactician", fresh from his foreign tour, will have to do some hard work to avert another Coimbatore.

LONDON

The Wages of Strikes

BRITAIN'S dockers voted to go back to work after a fifteen-day strike. The strike, caused by the failure of dock workers and management to agree on a new wage claim, was resolved by a court of inquiry which managed to steer an acceptable middle course between the employers' offers and the union's demands. It seems a pity that the management and the workers were not prepared to bend that little bit further, fifteen days ago. The cost of the strike is twofold. Firstly, there are the many economic setbacks which the strike has caused and secondly, the strike will have done a lot to strengthen the new Conservative Government's inevitable move towards trade-union reform.

Jack Jones, the Dockers' Union boss, had accepted a pay offer on behalf of his members, just before the strike was scheduled to begin, pending a meeting of the management committee of the union. So the strike was temporarily deferred, but the management committee refused to endorse his action, and consequently the dockers downed tools. Emergency powers were introduced by the Government, giving it the prerogative to call in the army to unload ships, if necessary. In fact, these emergency powers were not used. A court of inquiry was formed and quickly set to work discussing the demands of both sides and publishing its findings, which were accepted by the dockers and the management.

The dockers got almost what they set out to achieve. They were demanding a basic £20 a week and this, in fact, will be earned by all dockers. But the wage structure in the docks is so complicated that a blanket grant of £20 a week would have increased the actual wage of some of the already highly paid workers by some £6 or £7. Through the accepted terms of the pay agreement these higher paid workers will not benefit quite so much, and the pay award will mean an average of an extra £2 10s a week.

Though the dockers' delegates decided by 51 votes to 31 to accept the new pay award, it does not mean that there will now be peace in the docks. Already there have been threats of unofficial strikes by the more militant Liverpool and London dockers. These are the men who are already highly paid and gained less out of the settlement than their union had initially set out to achieve. The dockers' pay structure is so complicated that the workers are awarded a fresh wage for almost every consignment they handle. There are so many different bonuses and special awards that the men can sometimes take home over £50 a week. This puts them among the highest paid manual workers in the country, with wages higher than those of teachers, nurses, some doctors and journalists and the majority of civil servants.

The strike, and especially the threatened unofficial action to follow, could endanger the position of all workers in the country. The Tories, in their manifesto, promised to change the basis of laws regarding strikes. This is one promise they will keep, and it is likely that due to their bitter early experience, they are likely to try to be even tougher with the unions. Whatever shape the reforms take, they will certainly be very complicated, thus increasing the likelihood of other strikes.

LARGER UNIONS SET THE PACE

Though all trade-unionists and socialists must shudder at the thought of Conservative trade-union reform laws, there is a definite need for new procedures in industrial disputes. It is the richest and largest unions which wield the most influence, and thereby earn the highest salaries for their members. The smaller unions, regardless of the social importance of their workers, cannot keep pace with the inflationary trends created by the larger unions.

The crux of union reform is to establish a balance between the power of the large unions to blackmail the na-

tion, and their success in greatly improving workers' conditions. In Britain, it is the trade unions which have established conditions which are now considered to be essential ingredients of civilised life.

One of the suggestions for solving industrial disputes, and the one adopted to solve the dockers' strike, is a court of inquiry into the pay structure. At present, these courts have no legal power, and their recommendations need to be voluntarily accepted by both sides. The Conservatives would like to make these court decisions and also, all long-term wage agreements, legally binding. The main criticism of this proposal is that such legislation is not enforceable, since it is impracticable for a large group of men to be corporately, or individually, prosecuted. There are right-wing Tories who would like to see unofficial strikes made illegal. Apart from being ideologically undesirable, such a law would be quite unenforceable within a democratic framework.

Despite the apparent stranglehold of some unions of the nation, it is just as well that they are so strong. If the Conservatives thought for one moment that they could clamp down hard on the unions and get away with it, they would certainly not hesitate to do so. Were it not for the fact that without Trades' Union Congress support, no union reform would work, the Tories would have quickly imposed strike restrictions at the beginning of their five-year term of office — a long enough time for an electorate to get used to almost any bitter pill. As matters now stand, any legislation which is not agreed to by the TUC would bring about a general strike. Britain can therefore expect a trade-union reform bill which will only marginally and theoretically alter the position of the unions in the country, and further major strikes will probably continue to take place. Meanwhile weakly organised personnel like teachers and nurses, despite the recent pay awards, will continue to lag behind in their wage scales and inflation will keep on accelerating.

It is commonly said that the housewives put the Conservatives in power in June. And it is the housewives, again, who were most incensed by the dockers' strike, since it affected their purses directly. The housewives' wrath has been solely directed at the dockers, overlooking the wholesalers, retailers and other businessmen who lined their pockets due to the possibility of a food shortage.

SAIGON

Chaos in the Cities

COMMUNIST and nationalist leaders in Indo-China are happy over the widening war in that peninsula. In their recent statements, all of them — North Vietnam Prime Minister, Pham Van Dong; Pathet Lao Chairman, Prince Souphanouvong; Cambodia's Prince Sihanouk; and South Vietnam National Liberation Front President, Nguyen Huu Tho — have said that conditions in Indo-China were never more favourable for their common struggle than they are today. The Cambodian coup had stretched out the US and South Vietnamese troops over a wide area and had unified "the 50 million Indo-Chinese people". Their combined strength, these leaders have said, is "indestructible". In Laos, the US-backed royalist forces had lost the Plain of Jars-Xieng Khoang area, Attapeu and, recently, Saravane. In Cambodia, the Lon Nol Government was unable to expand its power and, faced with the rapid development of the revolution, was in fact on the brink of collapse. In the military field, the Cambodian National Liberation Army and allied forces had "wiped out or captured more than 12,000 US and Saigon troops in May and June" (this figure was given by the Information Bureau of Sihanouk's National United Front of Kampuchea).

Though the spotlight is now turned on Cambodia, South Vietnam remains the centre of the struggle. There, the war began 10 years ago and it has taken a toll of over a million of South Vietnam's 17 million people. How does the war look from there?

Life in South Vietnam's cities is chaotic. One runs into this chaos as soon as one lands at Saigon airport, or even before that, in the air. Myriad military planes circle over the airport; helicopter gunships and small observation planes looking for the movement of Vietcong forces in the vicinity. The whole airport area is divided into tiny concrete fortresses into which are pigeonholed a variety of warplanes.

When I landed there some days ago, I had to undergo a thorough personal search. A Vietnamese in plain clothes, who perhaps belonged to the secret police and did not appear to understand either English or French, took out all the money I was carrying and counted it, then read all the letters of introduction I had including those ad-

ressed to people in Hong Kong. "Were Indians being singled out for such a search?" I asked him, because I saw other passengers, mostly Americans, carrying handbags with identification tags that declared them to be pilots of the CIA airline — Air America — going through unsearched. But the plain-clothesman said nothing. I was later told that what was done to me might have been the South Vietnamese Government's way of expressing its displeasure over reports that the South Vietnam Liberation Front's Madame Nguyen Thi Binh would go to India on an official visit.

PERPETUAL FEAR

There is no organised transport for travellers from the airport to the town. No sooner did I come out of the customs than I was surrounded by taxi-drivers, eager to take me to the town for 10 US dollars. On the way, the driver kept asking me if I would like to change US dollars for Vietnamese piastres, because his people "who were fighting, needed those dollars". Who were his people? I wondered. They certainly could not be the Government of South Vietnam, which had declared all private foreign currency transactions illegal and had ruled that all foreign money should be changed at the banks.

There are control gates on the roads to Saigon. At these gates, all traffic, including pedestrian, is stopped and identity cards and baggage are checked to prevent the Vietcong or their supporters from smuggling weapons and explosives. One passes a hotel covered with a wiremesh cage, looking more like an enclosure in a zoo. US Government employees live there, one is told, and the cage is to protect them from hand-grenades and other explosives that are hurled at the building from time to time. On the main street — Rue Catinat, now named Tu Do — the trees the French had planted, with much loving care have been felled, to prevent persons from using them to plant plastic charges.

Prices of everything in the city are very high. A bag of rice costs 10,000 piastres (about Rs 640), a kilo of mutton 1,000 piastres (Rs 64), a kilo of gram dal Rs 28, and a simple meal in an ordinary restaurant Rs 60! The monthly wage of a white-collar office

worker is 12,000 piastres, just enough to buy a bag of rice. To survive, every member of a family has to work. People prefer contract jobs to fixed salaried ones because in contract jobs they can earn more (for instance, a taxi or truck driver earns from 60,000 to 80,000 piastres a month, depending upon the number of trips he makes). Enterprising girls, therefore, work in bars and massage parlours, where the takings from war-weary US troops are high. Because wages of office workers are low, there is a good deal of corruption. Money has to be paid to officials to obtain permits and licences for business, trade, travel, and almost everything.

Blackmarket is rampant, especially in currency. In banks, one is given 118 piastres for a US dollar, while in the blackmarket one can get as much as 400 piastres. When one of my journalist friends saw me changing money at the official rate of 118 piastres to the dollar in a bank, he wondered why I was not changing money at the 'Indian Bank' — the popular name for Indian shops on Tu Do which change money in the blackmarket. Of course, I could not do that because all my money had been counted in the search at the airport and had been stated on the currency declaration form, which I had to return to the airport authorities on leaving the country to satisfy them that all the money I had changed was through official channels. Five Indian shopkeepers had been arrested early this year in Saigon for illegal currency transactions but had been released subsequently, no doubt after the arresting and prosecuting authorities had been duly taken care of by the shopkeepers.

In Saigon one also gets acquainted with the other dimensions of the Vietnam war. For instance, that the war has no boundaries and consequently there are no safe or secure areas. During the week I was there, there were two rocket attacks on that extremely well-guarded and fortified city over which helicopter gunships maintain a 24-hour vigil. In one of the attacks six civilians were killed and 53 injured. In another, the rockets fell very close to the Presidential Palace and the residence of the US Ambassador. In the city centre, plastic charges placed on parked motor-cycles explode during busy hours, killing people. Some time ago, a time-bomb had ripped open the first floor of the building where the Press centre is located. The bomb, wrongly-timed perhaps, went off shortly after the daily Press briefing by Vietnamese and US officials, and attended by over 100 cor-

respondents, had ended. Nobody can tell what might happen where in Saigon.

THE CONTRAST

I also visited the rural areas of South Vietnam. There the situation was much better. Villages and crops have often been destroyed in bombing raids, and on every peasant's land are craters made by such raids, but the raising of rice goes on. The war has affected production. Also there are hardly any young men to be found in the villages. They have either been taken away to join the one-million strong Army of the Republic of Vietnam (ARVN) or have joined the Vietcong. Most Vietcong units are either in villages or around them, and they help in the cultivation of rice. If they do not, their own supplies would be affected. So, while the production is down, the villagers have something to eat. Besides the rice crop, they raise poultry and pigs. And the villagers share whatever they have. One never witnesses in the villages the destitution and despair that hit one in the cities.

In spite of reports of US troop withdrawal from Vietnam, nobody there be-

WASHINGTON

Spiked Horns of Dilemmas

TWO subjects dominate conversation in Washington, the Vietnam War and the state of the economy. The two, of course, are intimately interrelated. At mid-year, the economy is slowly but inescapably sliding into a recession. Unemployment reached five per cent of the labour force in May and almost certainly climbed higher in June. And with hundreds of thousands of young people entering the job market at the end of their school and college terms, just when employers are laying-off workers, there is trouble on the horizon.

House building is down by 23 per cent. Profits of major companies have plummeted down. With orders down, manufacturers are operating at less than 80 per cent of capacity. The stock market has been caught in a vicious downdraft — the worst since 1937 — and Andrew Brimmer, a member of the Federal Reserve Board has been quoted as saying that the campaign to restore price stability "has now moved on to the crucial testing ground". According to him "the next few months may well

lieves the war is going to end soon. In the cities, the Vietnamese just do not believe that the US will withdraw all its troops and support units. They are certain that some troops and support units will always be left behind to help the growing South Vietnamese Army, to provide it with the vital artillery and air cover. Neither do the villagers believe that the war is going to be over because the US is withdrawing its troops. The Vietcong have told them that the US is going to keep its support units in South Vietnam, until their "complete defeat".

Nevertheless, in the cities one can see the worry on the faces of the people, caused by the reduction in the number of US troops. Fewer US troops mean less money spent in bars, dance-halls, and massage parlours, on call-girls, middlemen and vendors and purveyors of all kinds of contraband articles such as drugs, popular among US servicemen. The bewilderment at the departure of US troops was expressed to me by a former high-ranking government official now turned Cao-Dai priest. He said, "I do not understand why the Americans are going. What did they come here for? If they had a purpose in coming, have they accomplished it?"

determine whether we stay on the field until the objective is achieved or whether we lose heart as the real costs of fighting inflation become increasingly evident".

The Administration's problem was which to tackle first: inflation or recession. It has now apparently concluded that it has already done enough to stop inflation and can let the momentum of the downward trend finish the job. As Nixon said in a televised speech: "It's a little like trying to bring a boat into a dock. You turn down the power well before you get to the dock and let the boat coast in". But is the Administration really doing this?

When the country spends at the rate of two and a half billion dollars a month on a war that is becoming progressively meaningless, it is reason enough for industry to feel neglected. In the initial stages, the war did give a certain boost to business; but side by side, there was the heavy investment in space and various ancillary industries, all of which kept the wheels of the economy moving smoothly. But the space race has been

won and Americans have beaten the Russians to the moon. There is less interest now in NASA, and unemployment in California, especially among the elite, is disturbingly high. Suddenly, it seems, there are no jobs for PhDs. Blue-collar workers are also being dispensed with. Seattle, the Boeing headquarters and manufacturing centre, looks like a ghost town.

The war is unpopular and even the hawks in the Administration have become weary. The question now is not whether or not to quit South-East Asia, but when. The Administration has promised to withdraw all US combat troops from South Vietnam by the end of 1971. Nixon knows that if he does not bring the boys back home by that time, his own renomination for the Presidency in 1972 will be in jeopardy. Whatever his feelings about Vietnam, Nixon is not the kind to cease wanting to be President. He has been under heavy criticism for expanding the war into Cambodia. His arguments for getting in there have at last been set forth cogently. They show a remarkable indifference to the fate of the Cambodians. Nixon's argument was that he had to do what he did to remove a threat from the rear to departing American forces, ensure the time-table for his Vietnamisation programme, give time to enable the Saigon regime to strengthen itself against the "enemy", and restore American credibility. What has actually happened is that the American forces have left Cambodia in far worse shape than it was in when they entered it. No one in the Administration seems to have understood this.

COOPER-CHURCH AMENDMENT

The most important result of the American incursion into Cambodia, as *The New York Times* has very perceptively pointed out, was not the "dubious military achievement" claimed by the President "but the political reaction on Capitol Hill as reflected in the Senate passage of the Cooper-Church amendment". The Cooper-Church amendment was tagged on to a foreign military sales bill as an indication of Senate sentiment against the war. Its intention is to warn the President that in case he intends going back to Cambodia he will have to come to Congress to ask for funding. It is important to remember that the amendment was a bipartisan measure. The highly respected John Sherman Cooper — a former Ambassador to India — is a Republican from Kentucky and Frank Church is a Democrat. The debate on

The Future of World Payments

Philip Thomas

The Gold-Money Rift — A Classical Theory of International Liquidity by P R Brahmananda; Popular Prakashan, Bombay; 1969; pp xiii + 351; Rs 36.

WHAT are the essential requirements of an ideal international payments system? What are the basic weaknesses of the existing 'gold exchange standard'? Along what lines could the remedies for these weaknesses be worked out? Does the creation of SDRs offer a stable solution to the problems that have riddled the world payments system over the past decade and a half? One of the virtues of P R Brahmananda's recent work, "The Gold-Money Rift", is that, shorn of its many digressions, it attempts to answer these and related questions. Moreover, many of its answers are not in accord with the findings of others who too have delved deep into these matters. This somewhat unconventional approach to the problems makes the book stimulating insofar as a careful student will find in it a number of views and arguments which he would be inclined to challenge.

GOLD AND PAPER MONEY

Early in this book, Brahmananda poses the question, 'Is it possible to conceive of some form of international money without any backing by gold or without any provision for convertibility into, or redemption in gold?' (page 25). His answer is in the negative, because an international paper money may be dishonoured by many countries; it may be deemed inequitable because it treats the thrifty and the improvident alike; and it may perpetuate initial disequilibria because deficit countries will have no incentive to take corrective measures. One may contrast Brahmananda's arguments in this respect with the findings of Robert Triffin on the same question. 'Even today, many people evoke with nostalgia the nineteenth century gold standard, and remain blissfully unaware of the fact that silver far outpaced gold in importance until the latter half or third of that century, and that paper money — currency and bank deposits — had largely superceded both gold and silver moneys well before the outbreak of the First World War. Whatever stability can be ascribed to the monetary

system of these days should not be credited to its automatic regulation by haphazard gold and/or silver supplies, but to the gradual euthanasia of these two "commodity-moneys" and their increasing replacement by man-made "credit-money"'.¹ According to Triffin, the evolution of international reserves parallels closely, although with a considerable lag, that of the national monetary systems. 'This gradual shift from uncontrolled commodity-moneys and reserves to man-made credit moneys and reserves, and later on to a conscious orientation toward the latter by national governments and international institutions, is likely to provide the best clue to future trends'.² In fact, in Triffin's view, the world is no longer on a gold exchange standard but on a 'negotiated credit-reserves standard'. This has resulted from the realisation among the reserve currency countries that they cannot finance deficits as in the past, and among the creditor countries that they cannot press their claims without precipitating a crisis. Consequently, there have been gold and exchange guarantees, reserve credits through IMF, and 'swap' arrangements, leading to a *de facto* 'negotiated credit reserves standard'.

IRRELEVANCE OF GOLD

The growing irrelevance of gold to the international payments system has been brought out equally lucidly by L P Thompson-McCausland, a former Adviser to the Bank of England. 'Gold has lost most of its original functions. It has long since been demonetised for domestic purposes. It no longer sets any limit on the domestic money and credit structure. It no longer actuates adjustment processes. It can no longer be freely used to maintain the convertibility link between the gold element and the currency element. Of all its earlier functions it only retains two — that of a common denominator for defining the par value of national currencies, and that of a medium for gaining access to the currency of another country. And, of these two functions, the former has been taken over by the dol-

the amendment will probably go down as one of the longest on any measure — 35 days and 288 speeches — and certainly one of the most well-informed; but the point is that it was passed by an overwhelming majority with Republicans joining their Democrat colleagues in an example of cross-voting that is indicative of the prevailing sentiment in the nation, although it must be stressed that the primary intention of the amendment was to reassert the constitutional role of Congress in committing American forces to overseas military action.

There can be no doubt that Nixon is fed up with the war and with what it has done to American society. But can Nixon withdraw his troops from the field of battle overnight? Some insist he can and should. Others believe that this can be done only by destroying the world's faith in America. Nixon's dilemma is understandable. He has to withdraw without *seeming* to withdraw. He can withdraw only after doing all that is possible to ensure that the South Vietnamese can fight their battles on their own. Reports indicate that they are in far better fighting trim than ever before. There is, however, no way of finding out until the Americans have left. All that the Americans seem to have achieved is to arm the South Vietnamese fully and to make any settlement more difficult. There is still hope, in some quarters, that some sort of negotiations might put an end to all the fighting by 1971. Inducements are being given to Hanoi, but having waited for 25 years, Hanoi can be pardoned if it decided to wait for the final and irreversible withdrawal of American forces from South-East Asia and then fight out its battle with Saigon. The United States may tire of fighting; but why should the North Vietnamese and the Vietcong when it is their future that is at stake?

If it were the war in South-East Asia alone, the Administration could feel that somehow it would be wound up with honour. But its toughest job is not in Vietnam, headlines-making though it is, but in West-Asia where the difficulties are harder to resolve and where, in the end, there may yet be a confrontation between the United States and the Soviet Union. Whatever the primary reasons the United States had for wanting to support Israel, the matter has now progressed beyond the immediate realities of a war between Israel and the Arab countries. It is now a question of recognition by the Western powers of the Soviet Union's right to establish its presence in the Mediterranean.

The Americans cannot justifiably ask the Russians to quit the UAR without first quitting South-East Asia. But the Russians are in Egypt by invitation, just as the Americans originally claimed they were in South Vietnam. The Americans have been reluctant to watch their clients in Saigon be defeated by more efficient forces. In much the same manner, the Russians are showing their reluctance to see the Egyptians beaten by the Israelis.

The Americans are in a far trickier position in West Asia than they are in South-East Asia. The United States cannot afford to see Israel lose, but neither can it afford to let Israel win. This is Washington's special dilemma of which the Russians are taking advantage. The trouble is that the Israelis play their own game with no reference to Washington. With the sporadic fighting continuing, Israel, unless again liberally assisted by American Phantoms, may come to a point when it is outnumbered and outgunned by Soviet-assisted Arabs. Can Washington allow this to happen? On the other hand, further arming of Israel by Washington may invite Arab reprisals on the oil investments in the Middle East. Should this happen, then Western industry in the area will be in jeopardy. This is the trump-card that the Arabs hold and which they may yet play, depending on future eventualities.

It is to the Soviet advantage to keep the West guessing; it has kept both the Arabs and the Western powers in suspense. But what do the Russians want? Influence in the Middle East, certainly. That they already have in large measure. Moscow may want to have control over oil distribution and pricing. It might want to control the supply routes of the oil that lubricates European industrial machinery. And it would be reluctant to relinquish this advantage without a good bargain.

It is important to remember that the Soviet Union is now permanently in the Mediterranean and no threats are going to make it move out of that once-exclusively Western pond. NATO's underbelly is now more vulnerable than it ever has been in the past. This has frightened policy-makers here. And every day that passes makes that threat more real.

The Soviet Union's ambition is to get the Suez Canal opened so that Russian ships can at last get easier entry into the Indian Ocean. This is outmanoeuvring the Americans at their own game of containment. There was a time, not so long ago, at the height of the Cold War when Dulles had thought that he had the Soviet Union in the

bag, as it were. Through a series of brilliant moves he had forged a set of alliances that had the Soviet Union fully surrounded. These alliances are now almost defunct, as much by America's own ineptness as by Moscow's willingness and readiness to exploit every opportunity that came its way. The Arab-Israeli dispute was a grand opportunity and now it is America's turn to feel threatened, not physically, but in terms of access to strategic material.

Can the United States afford to let the Suez Canal be opened to international — and Soviet — traffic? At the same time, can it afford not to? What if the Canal is opened and Soviet ships anchor off the shores of Kuwait and all the oil producing areas of the Arabian peninsula? How long will it be before the sheikhs renege on their support to Western oil companies? It is this fear that is haunting the Americans today.

Increasingly, the world is divided between two spheres of influence, the American and the Russian, and each is simultaneously trying to edge the other out where possible and seek accommodation where that proves more profitable. The other nations are pawns in this elaborate game, whether they wish it or not. There is recognition of this where international deliberations are most concentrated: at the United Nations, which is "celebrating", if that is the right word, its silver jubilee at the moment.

Its till empty, its staff engaged in internecine quarrels, its member nations dispirited, the United Nations presents no picture of unity, provides no answer to questions of war and peace. Is the United Nations, then, dead? Not quite. Like an overfed python, it is unable to move, so full is its belly with unresolved problems. It needs to be reassured that it has a role to play in re-ordering the universe closer to the desires of its founding fathers. A case for reforming the United Nations is readily made. There is the question of China; the question of divided nations like Germany, Korea and Vietnam. The question of the role and function of the mini-states. Should they have the vote or not? Then there is the eternal question of peace-keeping operations and their funding. But all these questions are really peripheral. Unless the Super Powers are willing to abide by some form of international restraint, the United Nations has little use. Its present state only reflects the reality of the international power structure.

lar, and the latter has been almost supplanted by the array of credit facilities, which are soon to be supplemented by the new asset of Special Drawing Rights. In all these respects, gold itself is no longer necessary to the system. Once the world had enough experience of the new asset to feel confidence in it, there would be no technical difficulty in devising arrangements... in which gold could be replaced by Special Drawing Rights or something like them.³

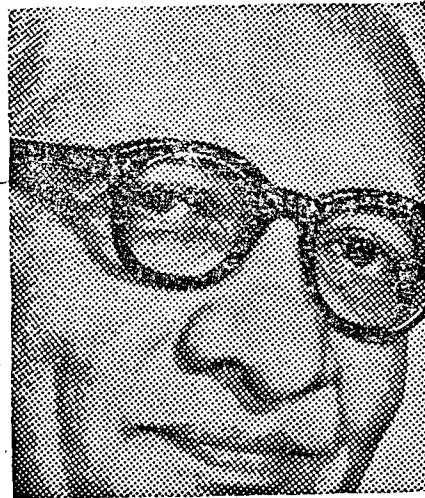
Thus, whereas Brahmananda sees in the restoration of the gold standard the only alternative to international monetary indiscipline and chaos, others see in the existing system the beginnings of a fuller international credit-reserves system.

IDEAL STANDARD

In Brahmananda's view, the 'ideal standard' is one which satisfies the requirements of the classical gold standard, and which would adjust itself to changes in the supply of gold by changes in the price level and the 'monetary situation' in different countries (chapter 8). He notes that it is possible to make adjustments to changes in gold supply through changes in the quantity of reserves which countries wish to hold, but that the scope for such changes is limited. He also rules out revision of international gold price as 'a last and final resort' to be used at rather infrequent intervals (p 56). According to him, the ideal system would rely on complete flexibility in the price levels in different countries. Thus, if a liquidity shortage emerges, the price levels will go down permitting a higher rate of growth of gold supply (p 56).

The same theme is set out somewhat more elaborately in Chapter 11 of the book. In this Chapter the author contrasts two 'strands of view-points' on world monetary problems. On the one hand, there is the Mercantilist and the Keynesian view-point, in which the emphasis is on the physical quantity of gold or other international reserves. According to this view, if gold shortage were not there, or if it could be met by some form of international money, there would be no problem of international liquidity. On the other hand, there is the 'classical' view which emphasises domestic monetary and fiscal adjustments as the lynchpin of the liquidity problem (p 80). 'In this view, there can be no shortage of liquidity. The central attention here is upon the

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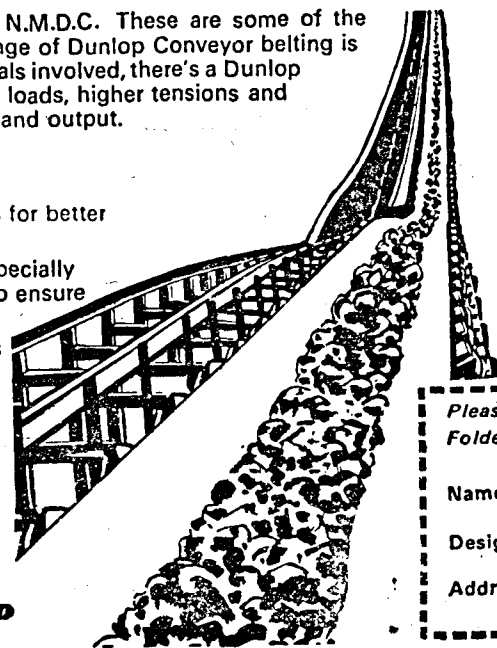
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gold value of commodities. In this strand, the gold standard is the result of the quest for stability in the purchasing power of gold in terms of goods. In this view, there can be no substitute for reserve gold. Any international money has to be based on gold and two-way convertibility is fundamental to the acceptance of such money. Ultimately underlying multilateral convertibility of currencies is the convertibility of currencies into gold and vice versa' (p 80).

One difficulty about Brahmananda's reasoning in this respect is that, a downward flexibility in price levels in different countries to keep in step with a tardy growth of gold supply, amounts precisely to a relative upward revision in the international price of gold. While it is true that the price of gold in terms of currencies is assumed to remain unchanged, the relative price of gold in terms of other commodities increases. Moreover, given the continuous shortage of gold, the process of deflation and the consequent upward revision in the value of gold has to be a continuous one.

LABOUR STANDARD

However, all this is of purely theoretical interest; for, as any practical economist knows, the world is today on a 'Labour Standard' and no deflation which would involve a cut in money wages, is in the realm of practical policies. There is thus today a wide acceptance of the fact that an international payments system which has to rely mainly on gold for future increases in reserves would involve frequent upward revisions in the price of gold in terms of currencies and the certainty of such revisions will itself make the system totally unstable.

Moreover, what the author sees as 'two strands of view-points' on the world payments system are really two aspects of the same gold standard. Under the classical gold standard, gold had two essential functions, first as a medium of exchange and link between currencies and second as a regulator of national monetary systems. The first function has long since been taken over by reserve currency assets, international credit facilities, and now the SDRs. Countries no longer use gold to intervene in the currency market to maintain their exchange rate, but rely on these other reserve assets. But the difficulty is as regards the second function. While gold ceased long ago to regulate national monetary systems, nothing else

has taken its place with the result that the balance of payments adjustment process or the response of the domestic monetary system to changes in balance of payments became tardy. Complementing the search for a new reserve asset, there have, therefore, been efforts to study the 'adjustment process'. While as yet no agreed solutions have been found, there is common appreciation of the need for appropriate monetary, fiscal and exchange rate policies. It is widely realised that, in the absence of such policies, no real progress can be made towards an improvement of the world payments system through a new, deliberately-created reserves asset, say the SDR. The choice, however, is not between a system based on an SDR-type reserve asset and a gold standard but between the former and a dollar standard or a payments system based on more controls.⁴

FLEXIBILITY OF PRICES

Brahmananda has devoted a whole chapter to the discussion of adjustment process. Chapter 12 of the book sets out the rules for achieving complete flexibility of prices which is the author's prescription for balance of payments adjustment. The rules are (1) monetary rule (2) interest rate rule (3) liquidity rule (4) fiscal rule (5) income policy rule; and (6) portfolio rule. Each of these rules have alternatives and subsidiaries. Much of what the author describes under these rules are conventionally known principles regarding monetary and fiscal policies. But there are certain novel elements, too, in the rules as he sets them out. First, all these remedies are to be administered more or less automatically in prescribed quantities. Secondly, unlike the conventional incomes policy, which has attempted only to moderate future increases in money incomes in relation to changes in productivity, Brahmananda wants an actual roll-back of personal incomes with every vicissitude in a country's reserves. As is common knowledge, there has been almost universal failure of conventional incomes and wages policies⁵ and it requires a specially stout heart even to contemplate the adoption of the type of incomes measures which Brahmananda advocates. Thirdly, what the author describes as the 'portfolio rule' (p 100) appears to be an altogether novel suggestion. The *raison d'être* of this rule can be best described in the author's own words, 'As fixed capitals constitute a major component of capitals and commodity prices in the

new classical system are simply capitals plus specific mark-up percentages, it is necessary to obtain by fiat adjustments in portfolio values. We have, therefore, the need for another rule, termed the *portfolio rule*: Capital values be marked up or marked down by the same percentage as personal incomes are marked up or marked down The legal framework may be adjusted or conventions adopted to specify some portion of capital values as the transit or non-permanent component. Some degree of flexibility in accounting procedures will become necessary' (p 100). In the absence of any further elucidation by the author, it is not at all clear to a common reader how this rule would work out. Ordinarily, it would appear that a writing-down of capital values by fiat would have the effect of a cut in business taxes. Thus businessmen would be given a tax bonanza and encouraged to step up their expenditure including consumption expenditure when workers have to take a cut in wages.

RELEGATION OF GOLD

On the whole, the conclusion seems inescapable that, there can be no automatic or mechanistic solutions to national monetary problems or to the world payments problems. While the time is not yet ripe for a complete relegation of gold and for the installation of a full-fledged international paper money, future evolution seems to be in the direction of a managed international currency system.⁶

NOTES

- 1 "The Thrust of History in International Monetary Reform", Robert Triffin, *Foreign Affairs*, April 1969, pp 477-492.
- 2 Triffin, *op cit*.
- 3 "The Place of Special Drawing Rights in the International Monetary System", L P Thompson-McCausland, *Bank of England Quarterly Bulletin*, June 1968, pp 146-155.
- 4 "The Role of Monetary Gold over the Next Ten Years". Lecture by Alexandre Lamfalussy; *The Per Jacobsson Foundation*; IMF, 1969; p 4.
- 5 Alexandre Lamfalussy, *op cit*.
- 6 L K Jha: Commentary on "The Role of Monetary Gold over the Next Ten Years"; *Per Jacobsson Foundation*, IMF, 1969; p 46.

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Socio-Political Parameters of Economic Planning

Jayabrata Bhattacharjee

All too often, models for economic growth and planning are concerned only with "economic" variables, totally ignoring sociological and political factors. For this reason, the planning process, in India particularly, has often been reduced to a sterile exercise.

The author appeals for a widening of horizons among planners. He is, however, sceptical about the possibility of any structural change in our economy without a complete change in the nature of our political institutions.

THE result of years of exposure to the neo-classical and technocratic models of economic growth and planning is the inevitable reaction against them. The author wishes to make it clear that he has nothing against these models and systems so long as they are kept in their proper place, namely as innocent diversions and pastimes for frustrated mathematicians and statisticians, or as esoteric hobbies for economists practising one-upmanship. But the dangerous part about these models is that these highly stylised, abstract, and axiomatic systems, totally divorced from reality, are much too often used for policy purposes in national planning schemes, with disastrous consequences. In the absence of any clearly defined criteria for evaluating the predictability value of a model in the social sciences,¹ and bearing in mind the impossibility of creating laboratory-type conditions to test hypotheses, these models are totally unsuitable for the formulation of policy measures based on their estimates, specially since they leave out such a large number of crucial considerations from their scope altogether.

STERILE EXERCISE

The objections, methodological and heuristic, to these formulations are that they artificially consign the economy to a water-tight compartment, thereby insulating it from all "non-economic" influences. By denying the impact of wider social forces on the economy either explicitly (when such social forces are neglected or simply wished away) or implicitly (when they are treated as data, given exogenously to the system), the authors of these models reduce the study of the planning process to a sterile exercise. The dichotomisation of the economy from the rest of society is actually quite untenable methodologically. From the viewpoint of a general

social science which is defined as the systematic study of collective human behaviour, the economy is clearly a differentiated sub-system of society. In functionalist parlance, we can refer to it as the adaptive sub-system of a more inclusive system — a society in the usual sociological sense. There is no concrete unit that participates only in the economy, however much economists would wish it were so. The notion of "purely economic" decision-making is therefore a myth, more so when the decision-making is in the sphere of such a complex and intricate process as developmental planning. Thus, what I am doing at this stage is making a plea for the integration of economics and sociology, as currently understood and taught, in a wider and more general frame, that of the social system, and then applying this new frame to the study of the problems posed by developmental planning. This is not entirely a virgin field, at least as far as the first step, that of integrating and unifying economics and sociology into a general theory of social action, is concerned. Parsons and Smelser² in their monumental work tried their best to evolve this new conceptual framework, based in part on some of the analytical devices developed earlier in Parsons, Bales and Shils.³ Despite their functionalist preoccupations, Parsons and Smelser do arrive at some definite conclusions with convincing rigour and clarity. The peculiarity of economic theory is not the special class of variables it employs. Indeed there are no specifically economic variables but only those that belong to the general theory of action. The economic element depends upon the parameters which define the type of system being discussed and these parameters in combination with the values of the general variables, distinguish economic factors

from the non-economic ones.

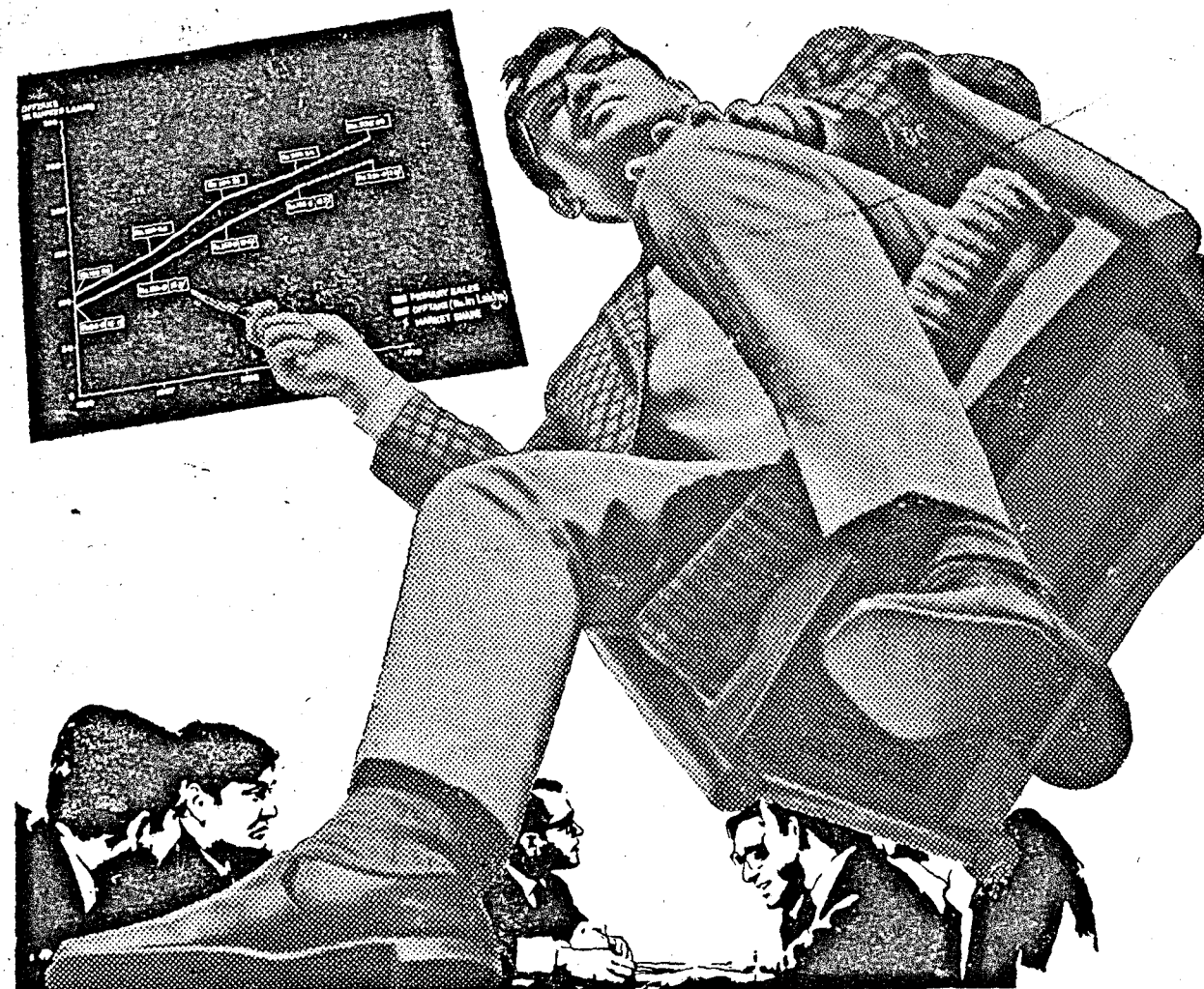
Parsons and Smelser, however, are far from original in their conception of the economy as a social sub-system. The origins of this go back to Marx and the thread runs through Sombart, Weber and other Continental writers to this day (Lange and Myrdal to name just two). It is the Anglo-Saxons who went off the rails and the guilt must be shared equally by the "economists" as well as the "sociologists". Weber's distinction between 'economic action' and 'economically relevant action', the former being part of the economy as a system, while the latter is not, was a perceptive and extremely valuable lead which however was unfortunately not followed up. Pareto⁴ too recognised the linkages when he says that economic theory as an abstract system deals with some of the variables which determine concrete social behaviour in the "economic" as well as in other spheres and thus economic theory must be supplemented by one or more distinct abstract theoretical schemes dealing with the other significant variables.

PARAMETRIC CHARACTERISTICS

To continue with the integrated conceptual framework that has been developed from Parsons and Smelser's schema, we can visualise the economy exchanging inputs and outputs over its boundaries with its situation, the latter comprising as its most important elements the other sub-systems of society and its institutionalised value-system. Specific concrete economic processes are always conditioned by non-economic factors which are most clearly evident in the parametric characteristics of the non-economic sub-system of society. Thus even as a starting point, analysis of concrete economic processes must rest on non-economic assumptions. Katona⁵ attempted such a study

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of consumption and saving patterns but unfortunately it was too narrow in scope and there was hardly any attempt at following up, some of the leads thrown up by him. The problem of institutional change in an economy is one of the most important examples of concrete economic processes which are conditioned by non-economic factors because the primary factors involved in institutional change cannot be economic. There can be no doubt whatsoever that developmental planning, specially in a country like India, involves the institutional set-up and includes the question of bringing about an institutional change. This is where the Indian economists with all the sophistry and elegance of their analytical tools have been palpably guilty in their total neglect of institutional factors. This leads to dangerous aberrations as is easy to see if we study the way they go about doing things. All these planning models assume an omnipotent Central Planning Authority of the Lange-Lerner type. This CPA operates only on the basis of technological and purely economic variables when it frames planning targets. After having done this, it implements the targets totally effectively, presumably because it has full powers to ensure such effective implementation. What is difficult to understand is how an assumption like this is relevant in a country like India where the Planning Commission is part of the administrative machinery, working within a constitutional framework and hamstrung by innumerable social and political constraints. In fact one can visualise no country, with the exception of Haiti under Duvalier, Nazi Germany, and other similar rarities, where such an assumption holds.

INDIAN TYPOLOGISTS

The Indian economists however blissfully go on with their exercises in futility. An extreme example is Gautam Mathur.⁶ Obsessed with his typology of growth paths, like Golden Ages, Bastard Golden Ages, Platinum Ages and other exotic variations, he completely forgets what takes place in real-life situations and what are the problems confronted by an actual planning process. His neglect of non-economic factors is total and his compartmentalisation of the economy complete. It is difficult to take a work on planning seriously when it says that the objectives of a plan and the time horizon (i.e., the period of time within which the objectives have to be reached), are "given" to the planner. With the two

most interesting problems in planning already disposed of so very neatly, what more could conceivably be left? One might as well go on addressing a wall, for the technocratic economist is already at work with his instability problems, Llyapunov norms and Pontryagin processes. Mathur also dismisses institutional factors like "land redistribution, change of inheritance laws to avoid fragmentation, etc," as "moral and political decisions which are given from outside to the planner and serve as constraints." Here again is the tendency to view planning as an economic problem rather than as just a problem, to deal with which an inter-disciplinary and unified approach is essential.

We must consider another example of wishful thinking, this time nearer home, before we pass on to other things. The reference is to Satish Singh's paper "Planning Economic Growth without Foreign Aid" discussed at a seminar in Delhi early this year and which was later taken up at a meeting of high-level government officials (*Statesman*, January 20, 1969). In an otherwise stimulating and perceptive discussion, Singh assumed, almost as an aside, that the rate of growth of consumption (c) would be maintained at half the rate of growth of income (g) in the first few years of his planning model. This is one of the crucial assumptions in his whole exercise because a whole sequence of conclusions follows from this, including that of the lack of need for foreign aid. Now $c = 0.5 g$ is the sort of assumption that is saturated with non-economic significance. What, for example, are the instruments that must be used to bring this about? Are these instrument variables politically feasible under the present power structure? If not, under what sort of political set-up would they become feasible? If Singh was not aware of these questions, one would say that his was a naive approach, not even satisfying the rules of conventional economics (e.g. Tinbergen's discussion of the matching of target variables by instrument variables to obtain a consistent planning model, neither over-determined nor under-determined⁷). If he was aware of them and yet chose to sidetrack them, one could well say that his presentation was not quite above-board, for no social scientist worth the name can afford to sweep matters of such importance under the carpet.

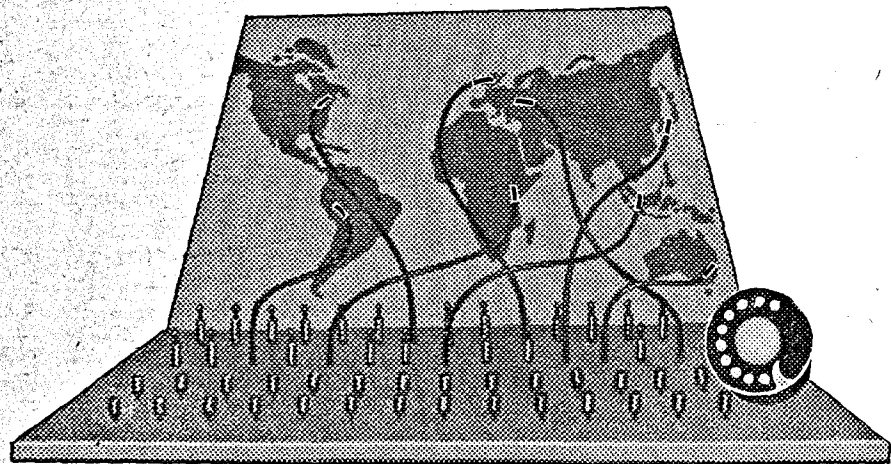
For a proper understanding of the planning process, we must reject the unsatisfactory approaches discussed above, and revert to the general social

approach introduced in the earlier sections of this article. We must recognise that all planning decisions are ultimately made by the polity which is responsible for the attainment of the collective goals of society. The capacity of the polity to mobilise the necessary prerequisites for achieving these goals, is labelled 'power'. The polity is related to the government in the same way as the economy is to "business". This analogy should make it clear that the polity comprises all those who, either individually or in their capacity as a member of a group, effectively take part in the decision-making process involved in the attainment of the collective goals. Therefore for our purpose, to gain a better insight into the nature of planning decisions taken by the polity we must analyse the character and composition of the polity. In other words we must have an accurate idea of the nature of the power structure. The present writer's hypothesis which is verifiable on empirical grounds and is not of an *a priori* type, about the Indian polity, is that it consists of a number of elite groups, basically non-antagonistic among themselves,⁸ but competing at the time of the formation of a government for the votes of a largely passive electorate, which is increasingly becoming more active. The electorate is passive because of either of two reasons — (a) though objective conditions are ripe for a revolution subjective consciousness is lagging behind, (b) the electorate realises their exploitation by the elite group but are ineffective in overthrowing the elite because of the obstacles placed in the path of their effective functioning. The obstacles to genuine mass-participation in politics have been discussed in Bhat-tacharjee.⁹

ELITE GROUPS AND PLANNING

The elite groups naturally support the *status quo* because any change is likely to upset their privileged position. Thus the tendency of these elite groups will be to use planning for their own ends. Setting up of targets, deciding on the planning horizon, terminal capital vectors, implementation paths to attain the targets (or in other words instrument variables) — all these are done with only one aim in view, namely to maximise the elite groups' *share of national income and wealth*. Which group forms the government at any particular point of time, is immaterial because there is in general harmony and complementarity among the groups

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when it comes to the protection of their vital interests and also because the concept of the circulation of elites in governmental positions is deeply ingrained and institutionalised among the groups. Occasional family quarrels among the elite groups do break out but they invariably come together to prevent any structural change or even a sizeable non-structural change (e.g., an appreciable worsening of their share of income and wealth brought about by, say, legislation). Thus now we have a number of operational and methodologically sound concepts which should help us in the study of Indian planning.

It should now be clear that with a political set-up like the one we have in India today, a structural change in the Indian economy is ruled out because the elite groups would not allow it. Thus a structural change in the Indian economy implies a total institutional change, or in other words the present elite groups must be displaced if something meaningful has to be done to the Indian economy. The discussion can now be carried on at a different level — how by a conscious planning effort, we

can displace the elite groups and bring about a structural change in the Indian economy. It is not proposed to do this at this stage because that would be an extremely difficult topic. What one must make clear now is that conventional technological economics is totally helpless and ineffective when dealing with the transition of the economy from one stage to another (a more developed one) because such a transition would encompass the rest of society and must be analysed in terms of the variables of the general theory of social action. In the meantime any planning analysis of the partial type, in other words, the type neglecting institutional factors,¹⁰ must be treated with the suspicion it deserves. The technologist economist must be told once and for all, that he cannot go on optimising the economy in a social vacuum.

NOTES

- 1 Simon, Herbert A: "Models of Man", 1957.
- 2 Parsons, Talcott and Smelser, Neil J: "Economy and Society", 1956.
- 3 Parsons, Talcott Bales, R F and Shils, E A: "Working Papers in

- the Theory of Action", 1953.
- 4 Pareto, V: "The Mind and Society" (1960 Edition).
- 5 Katona, George C: "Psychological Analysis of Economic Behaviour", 1951.
- 6 Mathur, Gautam: "Planning for Steady Growth", 1965.
- 7 Tinbergen, Jan: "On the Theory of Economic Policy", 1956.
- 8 Wesolowski, Wlodzimierz: "Les Notions de Strates et de Classes dans la Societe Socialiste", *Sociologie du Travail*, 1967. Contains an interesting discussion on non-antagonistic groups described as strata.
- 9 Bhattacharjee, Jayabrata: "Mass Participation in Politics — A Socio-Economic Interpretation", *Economic and Political Weekly*, Annual Number, January 1968.
- 10 Chakravarty, Sukhamoy: "The Theory of Optimal Investment Planning — An Operational Assessment", *Indian Economic Review*, April 1967, at least admits that his model presumes the existence of a stable political structure with a minimum degree of consensus on the goals of economic policy, and in the presence of sharply opposed social groups, his analysis would lose its validity. Others do not even make this admission.

New Urgency about Aid

Ashok Rudra

There is a familiar unreality that surrounds everything written on international aid by experts associated with international agencies. This is because of the underlying fiction that aid and development are purely economic problems.

In fact, aid and development issues are as much political issues. Aid is seldom given out of purely altruistic motives. More often, it is an instrument of foreign policy or even of exports for the aid-giving country. If experts pretend not to see this it is because they would otherwise lose their own raison d'être.

This article maintains that the 'Journal of World Trade Law' has done useful service by bringing together a competent collection of articles on aid raising all the relevant issues on aid and development and including articles which at least touch on the political aspects of international aid-giving. The author, however, doubts the unavoidable necessity of aid for development since there have been countries such as the Soviet Union which did develop, and China, which is developing, without foreign aid.

WHAT is aid? Is aid good? How much aid? Aid or trade? How to measure aid? These questions have become increasingly important in discussions of economic development since the Second World War when aid in one form or another has become an essential part of the process of economic development. They have also assumed a new urgency ever since it was observed that (in the words of Prebisch) "if the inflow of loans were to continue at 1965 levels and the terms and conditions of that year were to be maintained, the service burden would grow so heavy that net loans would turn negative in 1970". The UNCTAD has been much

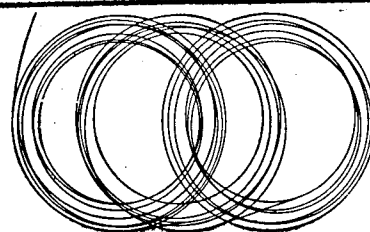
agitated over this menacing prospect, which is not the result uniquely of the failure of the developed countries to fulfil the Development Decade target of one per cent of GDP to be given as aid. There have been extensive discussions of all aspects of the problem, but they have been largely confined among experts and administrators associated with international organisations, and much of what has been written is scattered among unpublished documents of these organisations.

The problem, however, has become so important that no student of international economics can afford not to know about the issues involved, the

remedies suggested, and the controversies taking place. From this point of view the publishers of *Journal of World Trade Law* have done a great service to such students by bringing together in a special issue of the journal ("Development Aid — Special Issue of *Journal of World Trade Law*, March-April 1970, edited by Krishna Ahooja Patel) a number of articles examining the aid question from various angles written by various competent authorities. While the journal is devoted mainly to legal and international questions, this special issue does not concern itself with those aspects of international aid more than is necessary

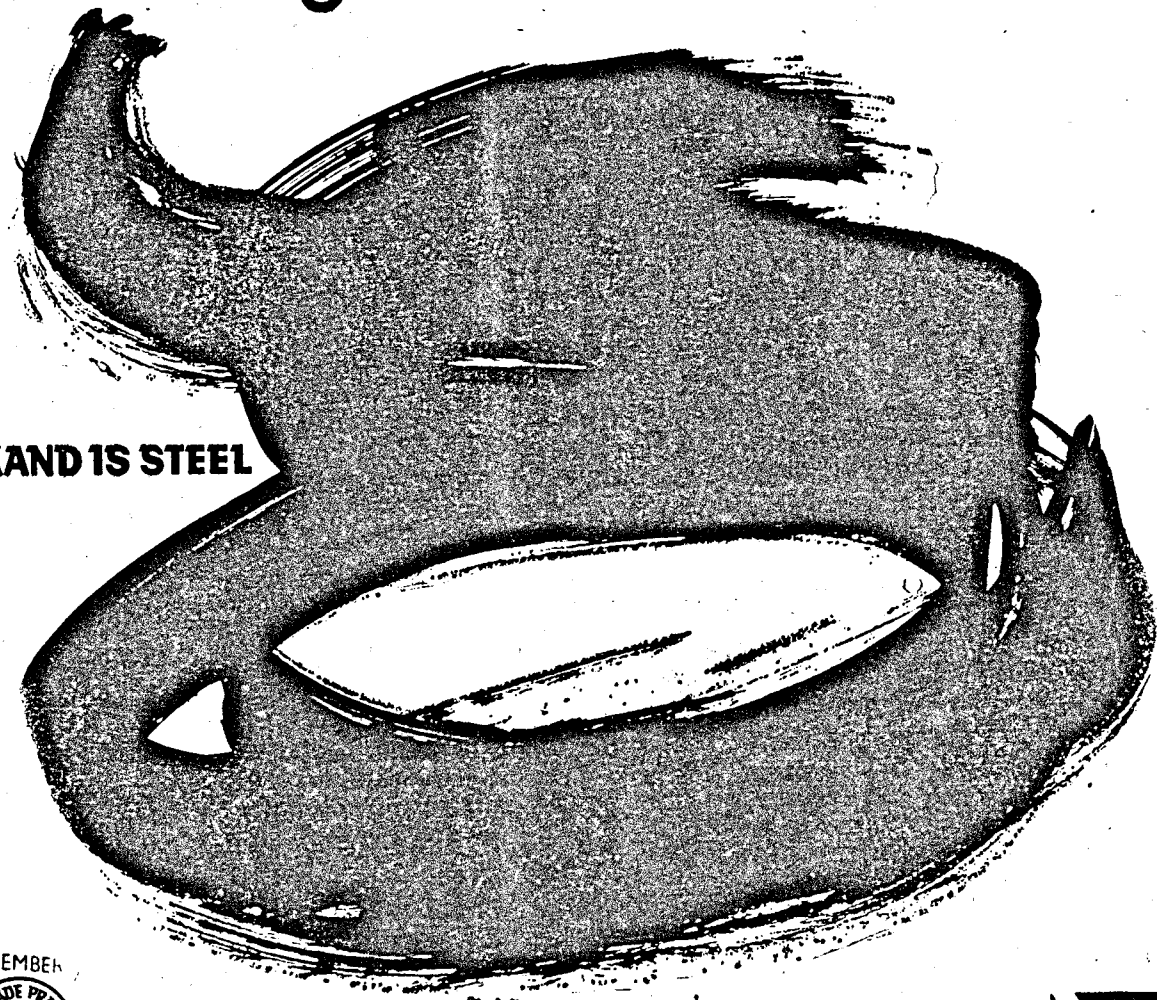
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for the student of economics to appreciate the problem in all its dimensions. The special issue is thus eminently suitable for economists. The volume is divided into four parts, with the second part containing a number of articles pertaining to institutional questions. These are mainly informative and as such very useful. Paul Berthond, an UNCTAD official, writes on UNDP — the "framework and procedures" of aid-giving under United Nations Development Programme. Other articles in the section bear on management of multilateral technical assistance, the mechanism of food aid, and assistance for export promotion. This section also contains two reviews: one of the Pearson report — a scathing one; and the other of the OECD report on development assistance.

The third part contains some case studies, like those of Swedish and Swiss attitudes to development aid and the experiences of Ceylon and Pakistan. The more critical studies are grouped under Part IV. Part I is given over to three essays by three highly placed officials of international agencies. The Executive Secretaries of the ECAFE and the ECA write on the aid problem as affecting the South-East Asia region and the African countries, respectively. The third article, by Dragoslav Abramovic of the World Bank, deals with the problem of external debt as affecting Latin America.

One should expect the articles in the first part to be somewhat inhibited and discreet, but they contain some forthright statements of strongly-held positions. Thus, Gardiner takes up issue in a rather lively manner with Baner. Quoting some views of the latter about the harmful effects of aid, he dismisses them with a thunderous "Professor Baner's contentions prove nothing". He refers in the course of his rebuttal of Baner to a study by Chenery that would have "identified a number of developing countries including Taiwan, the Philippines, Korea, Pakistan, Greece and Israel — in which foreign assistance has contributed significantly to economic development". There is however much to Baner's position that is correct — it is not necessary to swallow the whole body of his economic and social philosophy to agree with him that, if not always, quite often, "The flow of continuous, large-scale aid serves to pauperise recipients, by promoting the idea that unearned doles are the main ingredient in the livelihood of nations . . . The status and prestige of the self-reliance required

for rational progress are undermined". We shall have to come back to this point later. U Nyun, while discussing the relation between trade and aid, formulates the following startling proposition: "The efforts to achieve access to markets of the goods of the developing countries today could take the form of a deliberate stimulation of the growth mechanics of the past century. If pursued, such stimulation would resolve itself simply into obtaining rational prices for traditional export commodities; non-discriminatory market access for new commodities, including manufactures, and semi-manufactures many of which are fully competitive; and in the case of those commodities currently non-competitive, a transitional period of preferential access in relation to competitive suppliers in advanced countries."

This seems to be a very very polite way of saying what is said very often in the ex-colonial countries in much more crude language; viz, that aid extended to, and preferential treatment of, the developing countries by the developed need not mean charity, for it is only a part repayment by the countries of the West for what they took from their colonies over the last several centuries. The question does however remain: even if all the demands for aid and concessions made by the developing countries on the developed world were conceded, would that be sufficient to generate growth? Is aid a sufficient, as well as a necessary, condition of growth? U Nyun elsewhere refers to growth projections based on programming techniques that have been made for the ECAFE region under the auspices of the UN committee for Development Planning, which allegedly "indicate a feasible annual growth rate in GDP of from six to seven per cent, as compared to a growth rate of 4.6 per cent during the years of the decade now elapsing". One can hardly be expected to accept this statement for what it states. What sort of econometric exercises, involving the programming technique, have been used? There are no econometric models that are good for testing the feasibility of growth rates. By feasibility in programming literature one means consistency of the output vector with the vector of final demand, both for the same time-point. A programming exercise would trace the true paths of the output vector given the time-paths of the final demands, which in turn could depend on the rate of growth of the economy as a whole, which has to be exogen-

ous to the exercise. One could, of course, construct a multi-period programming model and treat as an objective function the increment of income over time and thus arrive at, not a feasible rate of growth, but a maximal one. Is that what has been done for the ECAFE region as a whole? One doubts.

While the two articles by the Executive Secretaries of the two regional economic commissions are general in nature, the article by the World Bank expert on Latin America is a thoroughly technical one, complete, with ample statistics, and attempting to abstain from making or implying any policy recommendations. As a factual and quantitative analysis of the problem of Latin American countries' indebtedness, it is indeed comprehensive. Equally technical and thorough-going is the article by Singer, included in Part IV, called 'Some Problems of International Aid'. Singer devotes the first part of his article to the problem of definition and measurement. Thus, "Should private investment be included? Short-term credits? Suppliers' credits? Should grants and loans be equally counted? Should any distinction be made between the flow of aid and financial resources? If so, where should the line be drawn? Should aid be counted as gross, or as net, of repayment? If the latter, what repayments should be taken into account? etc, etc, . . .". He raises this host of questions in connection with the volume target for aid, of one per cent of the national income of the donor country. In the second part of the article he undertakes an equally incisive analysis of the linkage of trade and aid. He is not one of those who dismisses the question "more trade or more aid" as a non-question: "the alternative does exist in real life" — but unravels quite a few traps that underlie arguments most often heard in discussions of the alternative. He passes through discussions of terms of aid, soft and hard; forms of aid, project and non-project aid, and comes to the balance-of-payments effect of various forms of aid on the donor countries which is often the proffered reason for the scaling down of aid or of tying down of aid. Here he makes out an argument which, he says, is "as clear a case as the cases for freer access and against discriminatory tariff structures" which "is, in fact, seldom clearly made by the developing countries themselves". The argument is based on the proposition that "the aid givers, collectively, should have no balance of payments problem", and the chief suggestion is

that "mutual agreements among aid-givers to expand or untie their aid in step with each other may not cause any major, new, balance-of-payments problem for any of them, while increasing the value of aid". Singer also touches upon the question of the criteria for allocation of aid. There too, he points, though briefly, to the many problems covered by the simple phrase "effective use of aid". Thus, "what is 'effective use'?" Should aid go to the "good performer" (whatever that may mean) or to the "improving performer", or to the "bad performer" who can be reformed and improved by aid? "Should the tests of performance be the same for Bolivia and Mexico, the Chad and Greece, India and Malaysia?" and so on ...

There is a well known, very familiar, unreality that surrounds everything written on international aid by experts associated with international agencies. That is so because the fiction has to be kept up that aid and development are purely economic problems, whereas it is known to all the discussants that they are no less political than economic problems. International agencies have to treat all the developing countries at par, as countries striving for economic development; and all developed countries at par, as having economic surpluses that are available to be used as aid to the developing countries. The truth, of course, is that most of the developing countries are having political regimes that do not provide the best suitable environs for economic development; also, the other truth is that no aid-giving country is giving aid to any developing country out of purely altruistic motives. Aid is partly an instrument of foreign policy, partly a product of the pursuit of enlightened self-interest. In the hands of the Super Powers, aid is an arm by which pawns are moved across the chess-board of world politics in the Super Powers' relentless pursuit of the objective of world domination. In the case of the lesser aid-giving powers, aid is an instrument for retaining and expanding interests handed down from the colonial period. In the context of this grim reality, much of the discussion on how aid can be increased in volume, and on how its form and terms and conditions can be changed, is thoroughly irrelevant. For, while the experts talk as if the problems exist because of a lack of knowledge as to how to solve them, for the aid-giving countries the existing state of things does not constitute any problem at all but represents an optional solution — optional from the point

of view of their own self-interest. If this solution does not coincide with the optimality of the self-interest of the developing countries, it is just too bad. No amount of technical discussion and no amount of econometric exercises will shift the solution from the optional point for the aid-giving countries to the optional point for the developing countries.

Experts do see this, but they have to pretend that they do not. For, that could rob them of their *raison d'être*. Thus, Singer also sees it, but only at the very end of his very technical and thorough discussions. It is only in the last but one paragraph that he breaks out with the exclamation:

"Or is this whole business of devising tests of 'effective use' merely a device to rationalise decisions reached on other grounds, or to sell aid to tax payers and parliaments? Is the real test to place maximum orders at inflated prices with influential sellers of equipment, to recruit the right kind of spokesman or lobbyist, or to take the right kind of journalists or officials on the right kind of publicity tours?"

This is about the nearest to the facts of life that Singer ever gets. But it is gratifying to find that two other articles are devoted to the gains that developed countries make and the losses that the developing countries suffer through this process of international aid. The gains to the developed countries are recounted by Vincent Massaro. After discussing, in quantitative terms, the ever-mounting flow-back of funds from the developing to the developed countries in the form of debt repayments and service charges, the author attempts to show the various ways in which exports of the lending country to the debtor country are made to increase through the process of aid giving. On the effect of tied aid, the author quotes some extremely telling figures given out by some extremely competent authorities. Thus, "In 1962 Mr Geoffrey Wilson of the World Bank suggested that the costs of tying normally range from 20 to 40 per cent", and "both the UNCTAD and the World Bank, using different methods of approach, have estimated that tying may have reduced the annual value of official flows in recent years by as much as \$1 billion". "In 1965 the promotion of United States exports became an explicit criterion for selecting capital projects and commodities and commodities for AID financing." "In 1967 positive lists of commodities were used for the first time to ensure additionality — i.e., commodities on the list are the only ones which can be finan-

ced with AID funds For the most part, however, the commodities on the list are those in which the United States does not have a competitive advantage." "A quantification is also attempted — though the particular figures must be as shaky as all such results of quantification tend to be." Taking all the direct and indirect effects into account, it is shown that the effects on the balance of payments may in fact be positive: "... for the fiscal year 1968, there is a positive balance of payments impact of the AID programme of \$ 176 million". As to other commercial advantages enjoyed by the aid-giver, the author quotes a former US AID administrator: "AID is indeed a precursor to trade, AID spurs the way to future trade which has a very beneficial effect on our balance of payments The rising trend of exports to countries such as Greece, Israel, Taiwan, Libya and Iran attests to the effectiveness of AID's long run contribution to the overall growth of US exports." After mentioning the overt motivation of shipments under PL 480, *viz.*, maintenance of surplus commodities and maintenance of agricultural prices, the author goes on to give examples of how commercial exports have enormously increased in the wake of PL 480 exports. Thus, "Taiwan imported 325,000 tons of wheat in 1962 under PL 480 and none in 1967; over the same period Taiwan's commercial buying of wheat rose from 9,000 to 280,000 tons. Over the same period the Republic of Korea's wheat imports under PL 480 declined by 6,000 tons while commercial buying rose from 26,000 tons to 341,000 tons." It is, however, a little strange that the author does not fully appreciate the most important contribution aid (together with war expenditure) makes to a capitalist economy, *viz.*, maintenance of near full employment.

We now turn to Dudley Seers' article which is quite extraordinary in the outspoken way in which it recounts a number of very unpleasant facts which are well known but which never feature in discussions among economists. Speaking of "Other Ways in Which Rich Countries Affect Development", he says, "sometimes an aid recipient is encouraged to arm, perhaps even to buy armaments from the donor; if armed forces are directly or indirectly strengthened, this in turn may facilitate military coups"

"Their embassies often follow the latter's internal politics closely and favour some political groups" (even sometimes some civil servants) more

than others."

"... aid provides leverage. Sometimes this is quite specific in that the recipient government knows that by accepting aid it forgoes certain policy options"

"The leverage affects not merely the policies of government but also who constitutes the government. Aid keeps in office, and is sometimes intended to do so, governments which are probably themselves the main obstacles to development"

If one puts these unexceptionable observations on political effects next to the observations on economic effects made by Baner that "foreign aid does not ensure economic advance, as is clear from the recent history of the many underdeveloped countries, when, after many years of external aid, living standards remain extremely low, and

the economic situation is critical", and when one also recalls that the economic development of the Soviet Union took place without any economic aid and that of China is taking place in the same way even after its rupture with the Soviet Union, one can well turn upon the position the editor takes in the introduction and challenge its basis. Writes the editor, "There still remains, however, a floor below which the needs of the developing countries for external finance cannot be reduced without seriously affecting their economic development". This axiomatic acceptance of the unavoidable necessity of aid has had very harmful effects on all the developing countries and India has been no exception. Drastic reduction of foreign aid that took place in 1965 was

the one single reason for planning being abandoned for as many as four years in this country.

Be that as it may, aid continues to be an important matter in the world of today, and the subject will remain of great interest to students of international economics for years to come. One has, therefore, to agree with the publisher's publicity line about the book: "This special issue on Development Aid will be in constant demand over the months and years to come. It is virtually a unique text-book on a subject which will become of increasing importance". This is so not only because of the theme of the special issue but also, because of the thorough job of selection and arrangement done by the editor.

Effects of Growth and Redistribution of Income on Consumer Demand

N Sreenivasa Iyengar

What are the effects of redistribution of income and of growth in incomes of households on their consumption expenditure on essential goods and services? This article attempts to outline a method of estimating these effects. It shows, with the use of a simple model, that a reduction in the inequality of incomes will lead to an increase in the consumption of essential commodities, even when there is no rise in per capita income.

A simple expression has been worked out, splitting the expected increase in consumption into two components — one reflecting the effect of growth in per capita income, and the other reflecting the effect of reduced income inequality.

It also appears that, while the demand for essential commodities grows up to a defined point of income distribution, income redistribution in favour of the poor beyond that point may result in an increase in demand for non-essential items of expenditure.

[The author thanks Nikhilesh Bhattacharya for his helpful comments on an earlier draft of this paper.]

INTRODUCTION

THIS note outlines a method of estimating the effects of redistribution and growth of income of households on their consumption expenditures on essential goods and services. It is shown through a simple model that a reduction in the inequality of incomes will lead to an increase in the consumption of essential commodities even if there is no rise in per capita income. A simple expression has been worked out splitting up the expected increase in consumption into two components, one reflecting the effect of growth in per capita income and the other the effect of fall in income inequality.

BASIC ASSUMPTIONS

Two basic assumptions are made here about the shape of the income distribu-

tion and the form of the expenditure-income relationship. It is assumed that household incomes follow the Law of Proportionate Growth, i.e., their natural logarithms conform to a normal distribution with mean m and standard deviation s , say. It is further assumed that demand for a specific commodity is linearly related to the logarithm of income. In other words, if X and Y represent income and consumption of a specific commodity respectively, we have

$$E(Y/X) = a + b \log X \quad \dots (1)$$

where E denotes the expected value, and a and b are parameters to be estimated. Both these assumptions are easily verifiable from the readily available size-distribution data.

The mean of the income distribution is given by

$$E(X) = \exp(m + s^2/2) \quad \dots (2)$$

and the Lorenz measure of income inequality L by

$$L(X) = 2P(s/\sqrt{2}) - 1, \quad \dots (3)$$

where $P(t)$ is the cumulative distribution function of the standard normal variate t .

Engel curves (demand-income relationships) which lead to variable income elasticities are more realistic and are of special interest. These are indeed suggested by the observed asymmetry of the specific concentration curves. The semi-log case falls into this category. Its statistical estimation is particularly simple, as shown elsewhere [Iyengar, 1964, 1967], when concentration curves for income and specific expenditure have already been constructed.

The semi-log formulation restricts the values of income to the range $\exp(-a/b)$ and above. Hence, in the derivation of the Lorenz curve and the

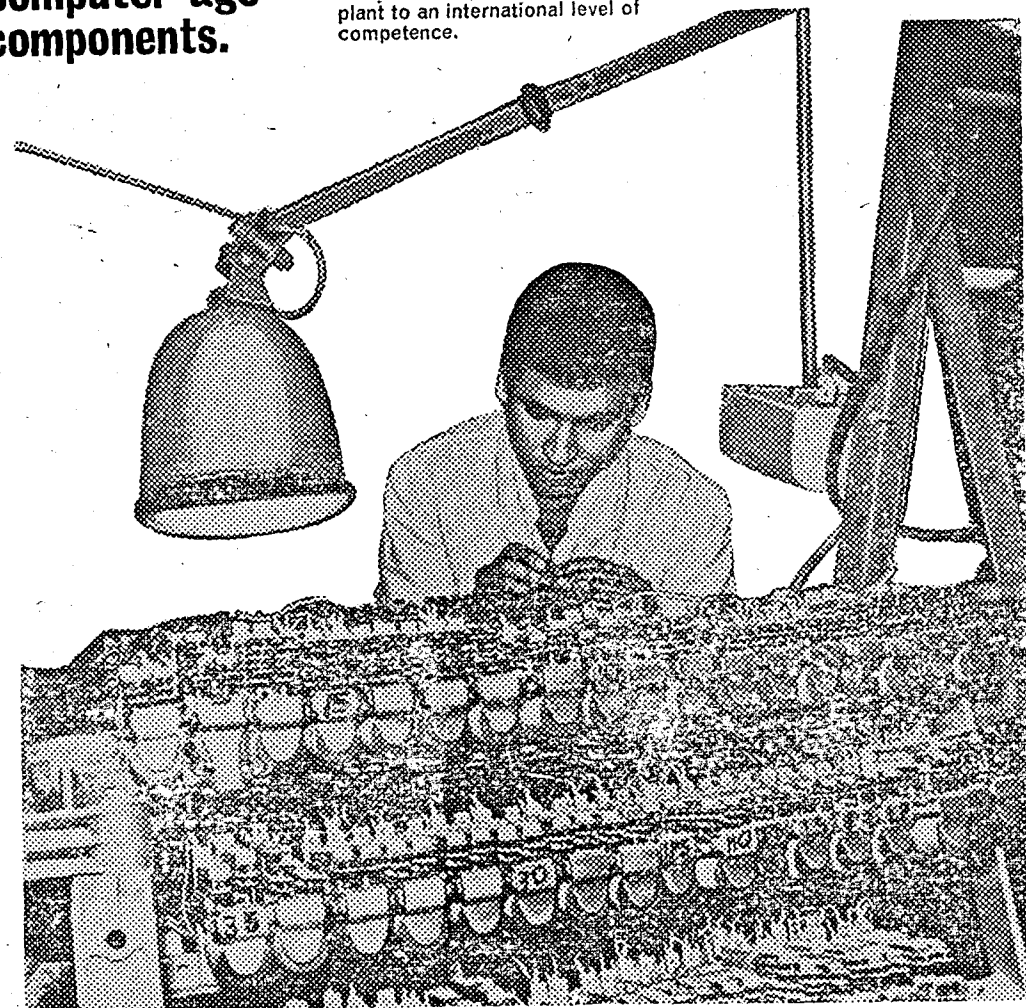
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specific concentration curve, the integration will have to be performed over the income range $X > \exp(-a/b)$, which may be regarded as the 'threshold' income. But in actual practice the proportion of households below the threshold level is usually small, and the concentration curves for essential expenditures rise above the horizontal axis from the (0,0) point. Hence the effect of ignoring the truncation may not be serious [Bhattacharya, 1963]. This is an important point to remember when the method of concentration curves is used for estimating the parameters.

THE PROJECTION FORMULA

Suppose that a change in the distribution of household income is envisaged by the planners. This change may be in respect of per capita income or in the inequality of income distribution, or in both. Let M_0 and L_0 represent

the present levels of per capita income and income inequality respectively, and suppose that the planners intend to achieve a target of g per cent in the value of M_0 and an h per cent reduction in the value of L_0 over a period of, say, T years. If these targets are realised we should have

$$M_T = M_0 (1 + .01g) \quad \dots (4)$$

$$L_T = L_0 (1 - .01h) \quad \dots (5)$$

Assume further that the semi-log relation (1) remains unchanged during the period $(0, T)$.

From the above considerations, the per cent change in expected demand for the specific commodity is found to be

$$I = 100 (m_T - m_0) e_0 \quad \dots (6)$$

where e_0 is the income elasticity of demand evaluated at the median income ($\exp_0$). It is related to m_0 through the relation

$$e_0 = a / (a + b m_0) \quad \dots (7)$$

In terms of the initial values of the distributional parameters and the projected rates of change in those values we may rewrite I as

$$I = 100 [\log(1 + .01g) - (s_T^2 - s_0^2)] e_0 \quad (8)$$

The right hand side of (8) can be written as the sum of two components G and R as follows:

$$I = G + R \quad \dots (9)$$

where G represents the growth component and R measures the effect of income redistribution on consumption.

$$G = 100 e_0 \log(1 + .01g) \quad \dots (10)$$

$$R = 100 e_0 (s_0^2 - s_T^2) \quad \dots (11)$$

The last expression can also be written as

$$R = 100 e_0 (t_{P_0}^2 - t_{P_T}^2) \quad \dots (12)$$

where P_T and P_0 are given by

$$P_T = [1 + (1 - .01h) L_0] / 2 \quad \text{and}$$

$$P_0 = (1 + L_0) / 2 \quad \dots (13)$$

Two special cases are of interest:

Case (i) When $g > 0$ and $h = 0$, that is, when per capita income increases but income inequality remains unchanged, $R = 0$ because $s_T = s_0$ and $G > 0$, so that $I > 0$.

Case (ii) when $g = 0$, and $h > 0$, that is, when there is no growth in per capita income but income inequality is reduced, $G = 0$ and $R > 0$ since $s_T < s_0$.

Given values of e_0, s_0 , one might compute I for different combinations of values of g and h and study the sign and magnitude of I .

ESTIMATION PROCEDURE

Suppose we divide the sample households into two equal groups on the basis of their income and compute the proportionate shares of total income and specific consumption accruing to the lower income group. If $\bar{X}_1$ and $\bar{X}_2$ are the average incomes of the two groups and $\bar{Y}_1$ and $\bar{Y}_2$ are the average specific expenditures, the proportionate shares of income and specific expenditure of the lower group are respectively

$$q = \bar{X}_1 / (\bar{X}_1 + \bar{X}_2) \quad \dots (14)$$

$$Q = \bar{Y}_1 / (\bar{Y}_1 + \bar{Y}_2) \quad \dots (15)$$

The median income elasticity e_0 is obtained by using the formula

$$e_0 = (.05 - Q) / s Z(0) \quad \dots (16)$$

where $Z(0)$ is the length of the ordinate of the standard normal curve at $t=0$. A consistent estimate of s is given by $-t_q, t_q$ being the standard normal variate such that $Pr(t < t_q) = q$. For details of the procedure, see Iyengar [1964].

CONCLUDING REMARKS

The semi-log hypothesis seems to be suited for most of the common items of household expenditure whose median elasticity is less than 1.77/s approximately [see, Iyengar 1964, p 612]. For all these items of consumption, the demand may be expected to increase following a redistribution of income in favour of the poor. From our analysis it also follows that the growth effect on

demand is more dominating than the redistribution effect.

A static position may be characterised by $g=0$ and $h=0$ since $I(0,0) = 0$. It appears that for a given g , as h increases, the demand for essential commodities grows up to a point where the income distribution is such that $I(g, h) = 0$ for some non-zero values of g and h . Further redistribution of income in favour of the poor may lead to an increase in demand for non-essential items of expenditure. It will be of interest to tabulate I for wide ranges of values of g and h and see where this actually happens. If g^* and h^* stand for such a situation, what would happen to demand for values of g greater than g^* ? Will it lead to a shift in the existing consumption pattern?

[This paper was first presented at the Ninth Indian Econometric Conference at Patna on December 24, 1969.]

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Richardson Hindustan

RICHARDSON HINDUSTAN recently shipped its first export consignment of menthol after meeting its own needs and to some extent those of other actual users in the country. The quantum of export is expected to be progressively increased with increase in production. Menthol is manufactured from raw mentha oil derived from a medicinal herb called mentha arvensis which, as a cash crop was new to India until 3 years ago when R H launched its programme of cultivation in Tarai region of UP. A research centre was set up at Bilaspur for improving the strain of the plant, oil yield, fertilisation of soil and determination of weedicides. Today, mentha arvensis is grown by farmers in over 1,500 acres in this region. The farmers' crop is distilled in the company's distillation plant installed at the research centre and oil is transported to its plant at Kalwa, in Maharashtra. Meanwhile steps for experimental cultivation of mentha arvensis have been taken in Maharashtra, Mysore, Punjab and Orissa.

Scarcity-Induced Boom

Nishtar

ENCOURAGING corporate news, return flow of large funds released from the recent new issues which were heavily oversubscribed, paucity of good scrips and fairly large institutional support for select counters have led to an all-round impressive rise in equity prices. And surprisingly enough, it is the slow-moving bank shares which have scored the most spectacular gains. Within a week, Bank of India rose from Rs 94 to Rs 121, Baroda from Rs 83 to Rs 103, Central from Rs 57 to Rs 75 and United Commercial from Rs 92 to Rs 115. Never before have bank shares been known to have recorded such a steep rise in so short a time. The spurt was due as much, if not more, to scarcity of offerings as to fresh support induced mainly by the proposal of Central Bank of India Ltd to merge itself with Tata Engineering and Locomotive Company; it was felt that the other residual banking companies would follow the Central's lead. One wonders whether the buying in bank shares was based on any thoughtful assessment of the possible benefits in the event of a merger. And one cannot take it for granted that the schemes of amalgamation, which might have to be referred to the Monopolies Commission, would be cleared by the Commission.

Anyway, stock markets have scaled an altogether new peak. Dalal Street has been in the lead but Lyons Range has not lagged much behind. And considering the deepening political crisis and the disturbing law and order situation in West Bengal, the performance of Lyons Range is indeed remarkable. It appears that Lyons Range has been greatly encouraged by recent assurances given by the various financial institutions — Reserve Bank, IDBI and LIC — that finance would not be allowed to hamper productive enterprise in the eastern region and that export finance would be made available on the same liberal terms on which banks make such funds available in other centres. The latest export policy resolution which seeks to ensure a seven per cent annual growth in exports through further liberalisation of credit facilities for export production and marketing and suitable adaptation of licensing procedures has been well received in industry circles.

But the recent news has not been all too favourable as the market's strident advance would seem to suggest. The new industrial policy has been given an anti-monopoly slant. The freedom accorded to big industrial units and foreign companies to expand or diversify output to the extent of 25 per cent has been withdrawn. Even limited expansion and diversification will now require prior Government sanction. Even for the setting up of export-oriented units, larger industrial houses and foreign companies will be permitted to expand only on the basis of specific export commitments ranging from 60 to 75 per cent of the additional production. Licensees who fall short of their commitments will have to surrender to the State Trading Corporation twice the amount of the shortfall.

From the stock market's viewpoint, a measure which can have serious implications is the Government's decision that the voting rights in respect of shares pledged with the nationalised banks above the value of Rs 50,000 would be exercised by the banks concerned and not by the borrower. The banks are to exercise their voting rights in such cases in consultation with the Unit Trust and LIC. The move is apparently intended to prevent cornering of shares for acquiring control over management can have a far-reaching effect on advances against shares. Because of its improved sentiment, the market has taken little notice of these unfavourable influences.

If one were to go by the claim made by the stock exchanges that the market is a reliable barometer of the country's economic and political weather then everything would seem to be set fair. But not many will be inclined to take such an optimistic view. Political weather is not only not fair but it has been getting increasingly rough. Thanks very largely to favourable monsoons for three successive years — the prospect for the current year is even more promising — economic indicators have been pointing upward. But the stock market seems to be moving far ahead of them. With production failing to catch up with growing demand, inflationary pressures have been on the increase. Government "experts" are getting increasingly worried over the ris-

ing trend in prices. The rate of increase in exports is running well below the seven per cent target. Despite investors' readiness to subscribe to any new good issue, entrepreneurs continue to remain shy. The truth is that the stock market is currently experiencing a scarcity-induced boom. The supply of good shares is far short of what is needed to satisfy routine investment demand. With forward trading banned, investors and bull speculators are fully protected against short sales.

Imports, to Begin With

NEW Delhi is going ahead with its plans for the take-over of the cotton trade. The Cotton Corporation of India is the name of the public sector agency which has been set up to implement these plans. While the import trade is to be taken over in its entirety from the beginning of the new season, in the field of domestic trade, the Corporation will undertake purchases only for specific objectives. It will take up all the cotton that might be offered to it at the official support prices, buy extra long staple cotton at fair prices, procure cotton for mills under the National Textile Corporation and also assist private sector mills in their programme of cotton purchases. No time limit has been set for the final take-over of the internal trade. The Minister of State for Foreign Trade, L N Mishra, is reported to have stated in the Rajya Sabha that it was not possible for him to assure that the take-over of internal trade would be effected in two years or ten as it would all depend on the machinery that the Corporation would have to handle the trade.

The practice of issuing import licences to user mills will be discontinued in the new season beginning with September. Instead, import licences will be issued to the Corporation with an endorsement in favour of the user mills for which the imported stock is indented. The Corporation will consult the user mills in regard to their requirements and conclude contracts in consultation with them. In effecting purchases and concluding contracts, it will draw upon the experience of those who have been engaged in this trade in the past. In order to be able to provide such services, the Corporation will enrol the private indenting houses as its associates and will work out with them the terms and conditions on which their

services will be utilised. This appears to be quite fair and reasonable.

Import is a very profitable business. Foreign cottons have always commanded substantial premiums. Canalisation has much to commend itself and it can make for economical operations; of course, much would depend on the people who handle the job. The Corporation could easily exploit its monopoly position to cover its inefficient operations. But that would be most unfortunate, to say the least. For imports involve valuable foreign exchange. If the Corporation cannot handle efficiently imports which is a relative simple affair, how can one entrust it with the far more difficult task of taking over the complicated internal trade in cotton.

In the field of domestic trade, the Corporation's operations are likely to be confined only to procuring cotton for the Government-run mills. Since there is no chance of cotton prices declining to the support levels (unless, of course, these support prices are raised very substantially), there will be no occasion for the Corporation to effect purchases at the floor levels. Nor are the 'more enterprising' cultivators likely to offer their extra-long staple cotton to the Corporation to obtain 'fair prices' when they can get fancy prices from the affluent mills. As for assisting private sector mills in their programme of cotton purchases, the scope for such assistance will be extremely limited. Apart from the question of confidence that a public sector agency can inspire among private sector mills, the Corporation will have to compete with the private trade for this business. It will be interesting to watch how efficiently the Corporation is able to meet the cotton requirements of the Government-run mills and whether it can supply cotton to private sector mills at competitive prices. Government will have no case for take-over of the internal trade if the Corporation cannot convincingly prove by its operations that it can do the job better than private trade.

While the Minister of State for Foreign Trade has been at pains to emphasise that the Corporation will draw on the accumulated experience and skills developed by the trade, cotton traders are determined to intensify their agitation and carry on the fight "through markets, farms, factories and courts till they succeed". Since the take-over of the cotton trade is a measure which can have far-reaching consequences, most trade organisations and associations have extended their support

to the cotton trade. The "Hindustan Bandh" called by the All-India Cotton Federation on August 1 was a complete success. Instead of resorting to one-day strikes which have proved ineffective, the trade is thinking of resorting to a prolonged closure of markets — for a fortnight, in the first instance. But in taking such a step the trade might be running the risk of alienating the sympathy of the mill industry which might have to put up with serious hardships in the event of a prolonged closure of markets.

Bulls Tighten Grip

THE oilseeds market, which had developed an easier tendency about the middle of July on ideas of a record groundnut crop because of the very satisfactory rains in almost all the major oilseeds producing areas, has turned firm again. During the past fortnight or so, groundnut oil prices have staged an impressive recovery from Rs 4,775 to Rs 5,200 (per tonne) which brings it very close to its season's highest level of Rs 5,275. Being a pace-setter, groundnut oil has imparted marked strength to the entire market. Linseed July contract went off the board at Rs 178 plus a penalty of Rs 2 a quintal and this is a very high price by any token. Castor September has recovered from Rs 133 to Rs 143 which is only a little below its highest level.

The progress of monsoon has been quite satisfactory; only Punjab and UP are deficient in rains. But in a country of this size one does not expect ideal weather conditions everywhere. On current indications, groundnut crop is expected to be better than in 1969-70. Of course, a clear picture will be available only after the August-September crucial rains. But at present, market sentiment is being guided more by ideas of current tight supply than by prospects of a good crop. Recently, the flow of groundnut oil supplies has not been sufficiently large to meet the steadily expanding consumer demand because of the approaching festival season. Traders who had sold (short) for nearly delivery in the hope of covering their sales at lower levels in the wake of satisfactory monsoon find themselves in a rather awkward position. Bulls have tightened their grip over the market. Perhaps it needs to be mentioned that bulls and bears are not to be found only in futures markets; they take a lively interest in spot markets as well. Delhi is an important centre of

illegal speculation in oilseeds and oils. It is really astonishing that the authorities should find themselves helpless in curbing this activity.

Oilseeds bulls are not bothered by Government's growing concern over rising prices of various consumer goods. Nor have they taken any serious notice of Finance Minister Chavan's assurances that he would do all that was possible to contain the price level. It is interesting to hear market men ask how anyone could expect prices to decline when the authorities themselves continued to provide the bullish fuel. Higher procurement prices for foodgrains in utter disregard of the recommendations of the Agricultural Prices Commission and the more recent increase in soap prices just when the soap industry has been assured of ample supplies of mutton tallow are cases in point. In spite of the continuing inflationary pressures in the economy, Government never tires of holding out promises of high remunerative prices to growers. But it is the consumer and not the grower who really needs protection.

Lahore Milk Production

THE World Food Programme has approved \$3.8 million as aid to Lahore's milk plant. The plant, with a capacity of 10,000 litres of milk per day today, will be able to expand production to 170,000 litres per day within the next five years. The WFP aid consists of 5,000 tonnes of dried skim milk, and 2,000 tonnes of butter oil which will be used in reconstituting and processing whole milk. This aid is supplemented by \$645,000 in the form of machinery and equipment donated by UNICEF. FAO contributes with specialised know-how and management assistance. An FAO management adviser has been attached to the Lahore plant since 1966.

Modern milk processing operations began in 1967. The plant was able to stabilise the price for top-grade pasteurised and homogenised milk at a lower level per litre than the average price of raw milk sold through other traditional commercial channels and usually found adulterated and unhygienic.

The increase in capacity of the Lahore plant will not only expand the supply of top-grade hygienic milk to the Lahore region but will also enable farmers, supplying raw milk, to sever their former commercial links with the traditional milk traders who have had a financial stranglehold on them making them under duress dilute the milk they sell.

Might Have Been Better?

Hansavivek

PHILIPS INDIA is soon entering the TV field and, given the requisite licence, it will be in a position to produce TV receivers in about a year without involving much foreign exchange. The new factory at Pimpri has been already planned to accommodate this new activity. The cost of a 19" TV set will be around Rs 1,500, excluding excise. At a preview of a demonstration of closed circuit colour television in Bombay recently, J Lusink — chairman and managing director of the company — mentioned the radio industry, where the index of cost prices has moved downwards; its example should also be followed by the TV industry which should set its sights high in technology, ensuring for instance that a TV receiver made in India has in it all the latest developments in design and technology in full justice to Indian consumer.

Philips took a pioneering step in 1955, presenting for the first time in the country demonstrations of closed circuit television in major cities. This was followed by another pioneering venture when broadcast television went on air from the Philips TV studio set up at Indian Industries Fair, New Delhi, in the same year. The company can also claim the credit for having paved way for the introduction of an experimental television service in New Delhi four years later. Closed circuit television was introduced on a fairly extensive scale, particularly in the field of medicine. Television, as an aid in diagnostics in combination with X-ray image intensifier equipment, is being installed by Philips in all leading institutions in the country. Medicine apart, closed circuit colour television has ample scope in education, industry, defence and entertainment.

Lusink said the company was eager to expand its industrial activity in India but that delays and obstacles created in granting licences even for 100 per cent export-oriented schemes had already driven Philips International to places like Singapore. The agreement arrived at between Philips Holland and the Government of Singapore took only 10 days, as a result of which an investment of Rs 20 crores is to be made there at top speed. This investment,

he added, could have been easily made in India. He said Philips India voluntarily went public in 1957 and offered 20 per cent shareholding to the Indian public. This would go up to 40 per cent. The company's exports in 1969 rose to Rs 75 lakhs, against only Rs eight lakhs in the previous year, and they are expected to exceed Rs one crore this year.

During 1969, Philips India's factory at Kalva maintained its production at full capacity for incandescent and fluorescent lamps. Expansion of the glass tube making capacity, however, was delayed by the late receipt of import licence for the required machinery and equipment. The project for production of Krypton miners' safety lamps has been held in abeyance as the changes stipulated by Government in the proposed terms of technical collaboration were not acceptable to the collaborators. The new welding electrode factory commenced production in June 1969. Machinery and equipment for expansion of production of standard electronic components was installed, and trial runs were taken last December. Machinery and equipment for the manufacture of professional electronic components is expected to be installed this year. Compared with 1968, production of radio sets increased substantially. A 'letter of intent' has been received for substantial expansion in production capacity of the Poona factory. The telecommunication factory at Calcutta remained idle for most of the year for want of import licences for raw materials, machinery and equipment required for manufacture of the second order of Government for fully transistorised portable transceivers. The company's proposal for the manufacture of record players and tape recorders was approved by Government. Production of record players at the Calcutta factory is expected to commence during the latter part of 1970 and plans for production of tape recorders have reached an advanced stage. Construction of a new factory building at Pimpri is in progress to house the manufacture of radios to be transferred from the present factory at Loni, Poona.

The 1969 accounts show that Philips India's total income rose from Rs 26.68 crores to Rs 30.45 crores and gross

profits from Rs 5.52 crores to Rs 6.18 crores. Net profit was Rs 1.87 crores (Rs 1.53 crores) to cover the 23 per cent distribution nearly 2.3 times and give a return of a little over 11 per cent on total funds employed in business. In addition, the company has obtained consent of Controller of Capital Issues to offer a gift of free shares to members on a one-for-two basis.

GOODLASS NEROLAC lifted its gross profit by 73 per cent to Rs 49 lakhs in 1969, following only a 17 per cent advance in net turnover at Rs 503 lakhs. Net profit was Rs 18 lakhs (Rs 11 lakhs) to cover the 12 per cent distribution 1.7 times and to give a return of 7.6 per cent on the total capital employed in business. Shareholders were told that these good results were achieved despite "severe competition prevailing in the paint industry and the ever increasing costs of raw materials, both indigenous and imported" and that these could be possible by distributing the products over wider areas and achieving a "sales pattern which gave maximum returns". In his annual statement, F H Kemple, chairman, stated that sales to industrial consumers and urban areas showed a "substantial increase" following the lifting of the recession and that the green revolution had brought it a greater demand from smaller consumers holding out prospect of increasing demand for paints from the larger mass of people located in the countryside. He also added that turnover for the first four months of the current year had shown a slight improvement over the corresponding period of the previous year but that he did not find it possible to make a forecast "in view of the uncertain conditions that obtain in the country especially over prices and the supply of essential raw materials". Meanwhile, additional machinery is being installed at the Fergusson Road (Bombay) factory to step up production of paint to meet anticipated demands. The new factory, being constructed at Kavesar (near Thana) for transfer of the pigment division, is expected to be in production early next year.

FROM THE CHAIR

The Tata Iron and Steel Company Limited

Statement of the Chairman, Mr J R D Tata

THE following is the Statement of Mr J R D Tata, Chairman of The Tata Iron and Steel Company Limited for the year 1969-1970:

To the Members,

THE YEAR'S RESULTS

The results of the Company's operations for the past year provide little cause for satisfaction.

Although the profit before tax was higher by Rs 1½ crores than last year, the profit after tax was slightly lower because lower tax allowances for depreciation and development rebate increased the provision for taxes.

There was a further decline in the production of finished steel, to the causes of which I shall refer later in this Statement along with the remedial steps we have taken and are taking.

It is no consolation to us to know that the other steel plants in the country have fared even worse than we have during the year, in the case of Durgapur and IISCO mainly because of the continually disturbed labour situation in the unfortunate State of West Bengal. The aggregate output of about 6½ million ingot tonnes of the major producers represented only an average of 70 per cent of their installed capacity as against 85½ per cent for Jamshedpur.

Our profits were adversely affected not only by the loss of production of about 100,000 tonnes of ingots and by its effect on our costs, but also by the continuous rise in costs due to causes beyond our control.

STEEL PRICES

Since May 1969, when we submitted our claim to Government for a price increase of Rs 116 per tonne, our costs have gone up by about Rs 30 per tonne owing to such causes as an industry-wide interim wage increase, increases in the prices of refractories, in railway freights and excise duties on fuel oil and import duties on spares. These further increases, except in respect of wages, have not been taken into account by Government in announcing, with effect from the 1st January 1970, the price increase of Rs 75 per tonne which, on our product-mix will come to about Rs 71 per tonne. This increase, of course, applied to only the last three months of the year.

INFLATIONARY INCREASES IN COSTS

The loss of production of steel by the industry as a whole, fortunately only a relatively minor one in our case, and the constant increases in costs, attest to the exceptional difficulties met by industry in our country in maintaining full production and controlling costs. The stage has unfortunately not yet been reached in India, as in more advanced countries, where maintaining or increasing production according to plan presents no difficulty, except of course in times of labour strife which in the steel industry abroad is relatively rare. While industries abroad are also plagued by continuous inflationary increases in costs, these are in most countries much less severe than here and can be recovered from increases in prices without the need for prior Government approval, market forces being the determining factor in fixing prices. The following figures of increases in some of our important items of costs over the last five years reveal the extent to which inflation is hitting Indian industry.

The cost of coking	
coal has risen by	50 per cent
of limestone by	40 per cent
of spelter by	142 per cent
of refractories by	36 per cent
of stores by	42 per cent

I have every hope that within a year or two we shall be able to re-establish full production, but there are no signs as yet of a stabilisation of prices and costs in our country. With continuing inflation in the country we must expect the increase in price we have been allowed this year to be further eroded by increases in costs, such as a further increase in wages which may be granted at the conclusion of negotiations now in progress for the whole steel industry. These factors will, I hope, be taken into account by those shareholders who may be tempted to make their own calculations of the likely rise in the net profits of the current year resulting from the application of the price increase to the whole year.

GOVERNMENT'S POLICIES

Although our financial position has remained strong in the sense that our debt/equity ratio is exceptionally favourable, the inadequate prices allowed

to the steel producers have denied to us the resources to plough back into the renovation and expansion of our facilities, a *sine qua non* of any healthy development whether in the Public or the Private Sector. The Public Sector, however, can, whatever the financial results of its operations, look to Government for additional funds required for modernisation and expansion. The Private Sector must rely wholly on its own resources and its capacity to borrow and raise further capital. I regret to say that the steel industry continues to suffer from Government's wholly misconceived and damaging policy of keeping prices earned by the Indian producers below world levels and, at the same time, charging a heavy excise duty of about Rs 150 per tonne on a product which they and everyone else recognise as being, with power, the key element of industrial development.

WORLD AND INDIAN STEEL SUPPLY POSITION

The recession in the demand for steel which prevailed in India two years ago has totally disappeared and India now shares in the present world phenomenon of an acute shortage of steel, particularly in flat-rolled products and quality steels. Today, the writing on the wall is only too clear that in the near future there is going to be a severe shortage of all types of steel, which will inevitably restrict the growth of industry, aggravate inflationary trends already rampant in the country, and cost heavily in foreign exchange both in imports of steel that should have been made in India, and in the loss of exports.

It is true that Government plan substantially to expand the country's steel capacity in the coming years by the construction of a number of new plants, all in the Public Sector. But this is an extremely slow process particularly in our country. Apart from the long delay involved in formulating and executing a new steel project on a green-field site, each new plant requires entirely new management cadres and labour force, both of which take many years to build into an efficient organisation. The expansion of existing plants is less costly and much easier to effect, usually requiring only a small increase in labour

force and practically none in management. While the expansion of the existing Public Sector plants has, for various reasons, been a slow one, no advantage is being taken, in the interests of the country, of the potential of Private Sector plants. A city like Jamshedpur, with its highly developed and experienced managerial and operational skills and large township, could support a much greater rate of production than a mere two million tonnes of steel ingots a year. Thus the country's larger interests are being sacrificed at the altar of ideological dogma.

DECLINE IN PRODUCTION: CAUSES AND REMEDIES

The decline in production at Jamshedpur has been due to a number of causes, a major one being the inadequacy and irregular quality of iron produced in the blast furnaces. This itself has been due mainly to a lack of uniformity in the composition of the iron ore received from the mines. In the old days, when the output of the ore mines was low, it was possible, through hand picking, to ensure uniformity in the ore supplied to Jamshedpur. This could no longer be done once the mines were totally mechanised. We expect this problem to be solved by the various measures we have taken and are taking to improve the quality and uniformity of the ore fed to the furnaces and particularly by the use of pelletised ore on the completion next year of the pelletising plant at present under construction at Noamundi. Similarly, improvements are planned in the sintering plant at Jamshedpur, which will also help to improve blast furnace operations.

Another important reason has been the deterioration in the condition of the older coke oven batteries, as a result of which we have lost not only production of coke but also of coke oven gas, which is used both in the Steel Melting Shops and in reheating furnaces throughout the plant. All coke oven batteries have to be rebuilt once during their useful life of about 12 years, and later replaced by new batteries. Because of the lack of sufficient funds to undertake all the desirable jobs of replacement and modernisation, our programme of rebuilding and replacement of our batteries has been somewhat slow. An accelerated programme of rebuilding and replacement, including the addition of an entirely new battery, has now been undertaken and shortages of coke should no longer be

a cause of low production from 1972 onwards.

The problem, however, of the high ash content of Indian coal will remain with us and other producers of iron and will always come in the way of obtaining from blast furnaces in India the high output and low coke consumption achieved in other countries.

While the programme we have undertaken to improve the quality and uniformity of raw materials fed to the blast furnaces should, within a year or two, re-establish our output of steel upto the rated capacity of the plant, it must not be forgotten that about half of the plant at Jamshedpur dates back to the twenties. Although most of the old units have at some time or other been overhauled, renovated and partly modernised over the years, they have reached an age when they are no longer capable of continuous production except with an excessive amount of maintenance. The time has come, therefore, when serious consideration must be given to a long-term programme of replacement with modern units, preferably of larger capacity.

THE NEED FOR MODERNISATION

We have during the past year given considerable thought to this major problem and have studied a number of alternative possibilities. We hope to come to final conclusions during the course of the current financial year. Such a project would have to be superimposed on the current programme of improvement to our raw material supplies as well as on the normal annual replacements and renewals, which are expected to cost a little over Rs 100 crores spread over the five years beginning with the current year.

The long-term project could itself cost anything between Rs 100 and Rs 150 crores, depending on the objectives, which themselves will depend on Government policies, and our ability to finance the project. In the kind of free economy that prevails in most democratic countries abroad such decisions would be simple to reach. In India, the power to make such economic decisions rests wholly with Government, both through their all-embracing licensing system and through their monopoly of sources of finance. Only the power not to make decisions is nowadays left to the Private Sector.

PROPOSED DEBENTURE ISSUE: THE CASE AGAINST CONVERTIBILITY

One definite assurance I can give shareholders is that while your Direc-

tors will always, as in the past, seek to promote the interests of the country, they will not undertake any major programme of capital expenditure, or accept financing terms, which would be unfair to the shareholders. In keeping with this policy, your Directors have not agreed to attach a right of conversion into ordinary shares to a part of the proposed issue of debentures, referred to in the Directors' Report, which financial institutions sought to impose as a condition of their support to the issue. The Board took the stand that, in the light of the Company's remarkably low debt to equity ratio, of the fact that the debenture issue was not intended to finance a large new project but only a continuing programme of replacement and improvement, and of Government's price policy which precluded any appreciable increase in distributable profits out of which the additional dividend on converted debentures could be paid, there was absolutely no case for the issue of convertible debentures at this stage.

Furthermore, the suggestion made to us that the right of conversion should be reserved exclusively to the Government financial institutions and not made available to shareholders, was found totally unacceptable. Apart from any consideration of logic and sound financial principle, such a proposal was so unfair to the shareholders, part of whose equity would be transferred to the financial institutions, that the Board could not possibly recommend it to the shareholders. Even if they did, there would have been no chance of its acceptance.

A curious sidelight on this matter is the fact that some of the financial institutions concerned are themselves amongst our largest shareholders whose interests as such would be adversely affected for the benefit of others who are not! The institutions are themselves well aware of the financial, legal and technical aspects of the matter, and I hope that the cogent arguments we have placed before them have satisfied them that Government's policy in regard to the right of conversion into ordinary shares of loans advanced by Government financial institutions to the Private Sector was not meant to apply to a case such as this one. If, however, the ultimate decision rests with Government, we can only hope that they too will appreciate the soundness and logic of our arguments. If not, we shall be left with no option but to reduce the magnitude of the debenture issue to such an amount as we can raise from

the market without the participation or underwriting support of Government financial institutions. It should be understood, however, that the inevitable result would be to delay the completion of the programme, and thus adversely affect the production of steel and therefore the country's interests.

GOVERNMENT FINANCE IN PRIVATE SECTOR INDUSTRY

I should like to make it clear that I see nothing wrong in Government investing in Private Sector industry. So long as such investments are made solely in the interest of the institutions making them, they could well be considered as beneficial to shareholders as Government would thus have a direct stake in the company and in its fortunes which were heavily dependant on Government policies and decisions.

The case of equity participation by lending institutions stands on a somewhat different footing. Here again, there could be no objection of principle to the lenders seeking to share in the fruits of a project to which their financial support will have made a major contribution. The International Finance Corporation, and other such lending institutions in India and elsewhere, have in some instances asked for and readily obtained rights of participation in equity.

OBJECTIVES AND CRITERIA

Thus, if Government's objective is that financial institutions should, in appropriate cases and in their own interest, be allowed to participate in the prosperity they have helped to create in a company through their support, no objection could be raised to their seeking such participation as one of the terms of a loan agreement, provided the occasion for it was the formation of a new company or a major expansion or the capital reconstruction of an existing company.

If, on the other hand, the purpose is to enable the lender to exercise some control in the operation of the company to which it makes a substantial loan so as to ensure its safety, surely the proper way of achieving it is either by making the loan subject to certain appropriate conditions which would, for instance, require the prior approval of the lender to any major capital expenditure, the launching of a new project, the issue of new capital, etc, or through the appointment of one or two directors on the Board of the company.

In those cases in which the lending institutions felt the need to impose cer-

tain safeguards, it would probably be against their interests to take shares which would offer them no security, instead of loans which would, and which might even give them a lower return.

In cases where participation is sought to be achieved by means of a conversion right attached to a debenture issue, to be exercised at a later date, I suggest the following conditions should apply. The first is that convertibility should be sought only when the debt/equity ratio of the company concerned is considered to be on the high side and needs to be rectified by an injection of fresh equity capital, and when the loan is for a purpose which is expected to increase the profitability of the company and thus enable it to pay dividends on the enlarged capital. The second condition is that any issue of convertible debentures must be offered in the first instance to all equity shareholders. I have no doubt that if such guidelines were issued by Government and the lending institutions were then left free to operate in their interests within those guidelines, there would be little cause for disagreement on either side.

I would therefore urge Government to identify and publicly clarify their objectives in this important matter, which has not only created a good deal of worry and suspicion in the minds of investors and management of Private Sector companies, but acts as a disincentive to fresh investment in industry at the very time when Government themselves are worried at the lack of adequate investment for industrial development in the country.

ZAMINDARI MYTH

The Directors' Report includes a reference to the recent amendment enacted by the Bihar Legislature to the Bihar Land Reforms Act of 1950, with the object of abolishing the so-called "Tata Zamindari" over the 25 square miles or so on which stand the Steel Works, other industrial factories and the city of Jamshedpur itself.

I referred to the matter in my Statement two years ago. The action now taken by the Government of Bihar for political reasons under pressure from the Communist Party, on whose support the present Government of Bihar depends for survival, is potentially of such serious consequence to the Steel Company and to the people of Jamshedpur, universally recognised as one of the most beautiful and best administered towns in the country, that I would have liked to have made a full exposé of the mat-

ter to the shareholders. All I can say, however, at this stage is that it is our firm intention to challenge in Court the validity of the Bihar enactment as soon as it becomes effective, and that the matter is therefore likely to be subjudice by the time this Statement is published. In the circumstances, it would be improper for me to discuss the matter here and I hope shareholders will understand the necessity for me to maintain silence on the subject.

LABOUR RELATIONS

It is opportune, in reviewing the affairs of the Company's operations in a year which saw a serious outbreak of labour strife at Jamshedpur, to express gratification at the fact that the Steel Company itself and its employees remained totally free from the trouble created elsewhere by selfish men for political purposes. Your Company, directly or indirectly, employs by far the largest number of workers at Jamshedpur. Although they come from every part of India, they are first and foremost citizens of Jamshedpur. To many of them, whose fathers and grandfathers have worked for the Steel Company, Jamshedpur is the only home they have ever known and their job in the Steel Company the only one they have ever had. Unlike the workers in other factories more recently established at Jamshedpur, whose roots are therefore not so deep in its soil, TISCO workers, belonging to many different States, religions and communities, have coalesced into a remarkably stable, mature and responsible industrial community and have maintained a degree of social, industrial and communal peace and harmony unique in the country today. To their everlasting credit, they were responsible for not a single of the 17 million productive man-days lost through industrial conflict in Indian industry last year. Considering happenings elsewhere and the serious loss caused by them to the nation, the employees of the Tata Iron and Steel Company deserve both our and the country's gratitude. I am happy to take this opportunity to assure them that the Company's Directors and Management recognise and appreciate their spirit and good work and will continue to promote and protect their interests. I would like as usual also to thank the management and staff of the Company for the good and hard work they have put in during the year.

END OF AN ERA

The year under review ended 62 years of management of the Company

by Tata Industries and its predecessors, Tata Sons. It would serve no purpose to discuss once again at this stage the merit of the action taken by Government to abolish an institution which has been the principal instrument of India's industrialisation over a period of nearly a century, nor would it be proper for me, as Director for 44 years and Chairman for 32 years of your erstwhile Managing Agents, to refer to their services to your Company. However, as we look back upon the long and chequered history of the Steel Company and the many arduous years of exploration and preparation undertaken prior to its formation by Jamsetji Tata, his sons and lieutenants, I feel it is fitting that we should pay our tribute to the memory of Dorab Tata, Ratan Tata, R D Tata, B J Padshah, Nowroji Saklatvala, John Peterson, Ardeshir Dalal and John Matthai. These men are now no more, but in their lifetime played a major role either in bringing the Company into existence near the turn of the century and nursing it through its early vulnerable years, or in saving it from disaster after World War I, and finally in guiding it with devoted care to its present pre-eminent position in Indian Industry. Of the personal recollections I have of the part played by these men in the history of this great national enterprise, perhaps the most characteristic is that they all shared the feeling that in serving the Steel Company they were serving the nation.

I am glad that of the old-timers who played an important role in building up the Company, we still have with us Sir Jehangir Chandy, who served the Company with distinction for fifty years, and whose reappointment as a Director is before you.

I consider it a great privilege to have been personally associated with nearly all of these able and dedicated men from whom I learned much and on whose early example and advice I relied when my turn came to assume the Chairmanship of the Company and of its Managing Agents in 1938.

Throughout the 32 eventful years which followed, the Company passed through many trials and tribulations; but always continued to maintain the highest traditions of integrity and service to the nation. Those of my colleagues who were concerned with its management and I have received nothing but kindness and courtesy from the shareholders. In taking this opportunity to express our gratitude for all the co-operation extended to us over these many decades, may I assure you

that, although Tata Sons and Tata Industries are no longer your Managing Agents, their concern for the welfare of the Steel Company remains undiminished and they will continue to do everything in their power to promote the in-

terests of this great enterprise which they had served for so long.

J R D TATA

Bombay, 22nd July, 1970. Chairman

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ACCOUNTABILITY IN THE STATE TRADING CORPORATION OF INDIA

COMPANY MEETING

Speech delivered by Prakash Tandon, Chairman, at the Fourteenth Annual General Meeting of The State Trading Corporation of India Limited, New Delhi, July 31, 1970.

SALIENT FEATURES

		1967-68	1968-69	1969-70
Exports	Rs crores	23.6	48.5	55.1
Imports	"	115.8	114.1	150.2
Domestic	"	1.8	4.6	5.4
Total sales ¹	"	141.2	167.2	210.7
		(46.3)	(47.2)	(47.6)
Total expenditure ²	"	4.1	4.5	4.0
Profit before tax	"	7.7	12.1	12.7
Profit after tax	"	2.3	4.0	5.2
Dividend	"	0.3	0.4	1.0
Equity capital ³	"	2.0	2.0	5.0
Reserves	"	9.6	13.4	11.8
Stocks	"	40.9	30.6	17.9
Debtors	"	23.4	23.1	20.5
Overdraft at year-end	"	-13.6	-3.7	+1.4
Profit before tax: sales	%	5.4	7.2	6.0
Stocks: sales	%	28.9	18.3	8.5
Expenditure: sales	%	2.9	2.7	1.9

1 Figures in brackets show sales of our fertiliser import business that was transferred to Minerals and Metals Trading Corporation on 1-1-1970

2 Total expenditure includes interest.

3 Increase due to two successive bonus issues.

THE Directors' report giving an account of their stewardship is in your hands: and above we have given some key figures of our performance which speak for themselves. I can only say that it was a generally bright year for your Corporation, of growth healthily achieved, with a more efficient deployment of resources — men, money and materials. For this all credit is due to the Ministry of Foreign Trade for their support; and the dedicated efforts of our own men and women, who can be justly proud of their achievement. I owe deep personal gratitude to the Minister and his Secretary for their always permissive and sensitive support to me.

But there is a submission that I would like to make on the Corporation's profitability for your serious consideration.

While profitability at 6.0 per cent of turnover is poor by all standards, when it should be around the customary 10 per cent plus, we are nevertheless constantly under pressures to reduce our prices and margins. As the scope for further saving in inventories and expenditure is now nearly exhausted, such pressure will only lead to a yet further reduction in profitability.

In keeping with my own past practice, while leaving you to judge the

performance of the Corporation from its Annual Report and Accounts, reflecting the much it has done well but the much more that it needs to do better, may I turn to an aspect of the Corporation, namely, its Accountability — a matter of some importance, in which we are all vitally interested.

Much is said about the stricter accountability of the Public Sector, belonging as it does to a single national shareholder, and therefore the society in general. I believe this depends upon how you define accountability. The Review Committee on STC in its report made some comments which are worth quoting:

'The Corporation needs a new definition of its accountability. Various institutions, Government, public and parliamentary ask numerous questions. This to us does not by itself constitute accountability in a public undertaking. Answering questions on its operations, especially when a crisis occurs, is also not real accountability.'

To us the ultimate test is one of targets set, performance measured and an account given. The more the Corporation concentrates upon this absolute concept of accountability instead of to whom it is responsible,

the healthier it will become, and so will the criticism it will receive in future.'

'True accountability in our opinion is a system in-built in the Corporation to measure, appraise and convey its performance.'

'A model built of the Corporation would show that while its core function is marketing, with contributing service functions around it, at the boundary it has a somewhat larger than usual span of those with whom it has to deal — Ministry and Government, trade and industry, commodity boards and export promotion councils, agencies of Government abroad, press, public. Parliamentary committees, and Parliament itself at the very top.'

'To all these the Corporation is responsible, and its accountability lies in how well it plans and budgets, measures and appraises, and regularly conveys the results.'

'To sum up, the question is not to whom the Corporation is responsible, but how it conceives and discharges its responsibility.'

Accountability, therefore, must be viewed as not just answering the 'casual question', but a complex of systems and relationships internalised within, and externalised at the periphery — a style of management, a way of life for the Corporation. Let me elaborate.

At present, all that a company, public or private, is required statutorily to do is to prepare its annual accounts on a format laid down under the Companies Act, which shows some figures for the year and others on the last day of the year, together with as brief an account as they like by the directors. And this can be done any time within six months of the year-end, or later with permission; by when it has become history anyway.

For public undertakings, there are though some quite shrewd and incisive appraisals, but these are done once in a while, and that also some years after the event by when the men responsible have usually moved on and the decisions have lost their pristine freshness:

when it is difficult to recall the pros and cons that weighed with the decision makers at the time, and especially the nuances that often determine a decision.

If I may be forgiven I would liken it to inspectors of a shipping line boarding a ship, say, at Tokyo, on its journey from Bombay to Tokyo and addressing the captain, who has prepared himself to give a full account of the voyage this: 'We should like to discuss with you, Captain, the fuel efficiencies and the quantity of fuel bought on the voyage that this ship took six years ago, from Rotterdam to Buenos Aires, because we find from records that the fuel consumption and the price paid on that voyage was on the high side, and you did not issue a tender.'

The captain will no doubt find this a valuable exercise, but more valuable will it have been to have discussed with him, the voyage that he had just completed. Today, economic and industrial events move very fast indeed, and a post-mortem of yesterday is likely to be more helpful than an exhumation of some years ago; of a past long dead disinterred.

Equally important as the time factor is the quality and content of the examination. While pointing out shortfalls, ideas should be brought to the surface that are translatable into an immediate improvement in operations and results; and thus to leave the management with a knowledge of where it did well, or badly or should do better in the future. Important, too, that the examination should not merely confine itself to the propriety of actions but also their results, for after all in the end essential though it is that a company has followed the rule it is yet more important that it has produced results.

An examination which leaves a management feeling bigger and better, with new directors before it, will benefit the organisation; conversely, as the one that leaves a management crestfallen will have harmed it. But these are problems of large Corporations the world over today, of how to appraise their units and encourage them to do better. There will always be cases where a top management has consistently failed; it is usual then to quietly remove the very top than to leave the whole organisation diffident.

May I now turn to how your Corporation is evolving its own definition of accountability, and begin by stating that it is trying to make accountability an operational philosophy; as much a part of its system as servo-mechanism

of a control system, so that as it runs, it registers information from preselected keypoints and goes into action when things begin to go wrong. Those to whom the machine is responsible will thus only have to watch, and when all is well leave it be.

Your Corporation is therefore building both an appraisal system and a correction system so that the organisation becomes gyroscopic in its self-adjustment: as the appraisal system hoists a signal, corrective action is automatically generated. This is at least an ideal we strive towards.

Let me now give you a brief account of how our system is trying to work.

Performance Budget: This is the cornerstone of our edifice of accountability. We began last year with a detailed budget that was a statement of our marketing intentions, quantified in terms of men, money and materials required to translate intentions into results — exports, imports and profits. The Budget both looked back into the previous year's performance, and it looked forward into the coming year for its targeted performance. Our new budget while estimating for 1970-71 also makes a tentative projection into 1971-72; and next year we hope to plan for 3 years.

The Budget became our master plan and like the course charted by the ship's captain, which is then followed with meticulous care and corrected whenever he goes off course, so we follow it closely. Our first year's experience has been encouraging because we hit the targets accurately, largely because of the appraisal systems we introduced, whereby our Management Advisory Committee, consisting of the Division Heads, met assiduously every week to review the previous week's progress and then discussed it with the Committee of Management — the executive directors.

Performance Appraisal: This is done on a daily, weekly, monthly and quarterly basis — and, of course, annually.

Daily, there is a cash statement prepared to keep track of credit utilisation and movement of cash, and any surplus is switched from one branch to another so that we use the cash in one reserve rather than in pockets. Cash forecasting is done on a weekly, monthly and quarterly basis.

Weekly, a detailed statement is prepared of sales, imports and exports, orders booked, executed and outstanding: all compared with last year's actuals and this year's budgeted datum.

The weekly report also shows stocks position.

Monthly, we prepare a review of the Corporation, consolidating the weekly statements and adding statements on man-power, detailed notes on the work of the divisions a general note on the economic background to the STC's operations, news from foreign offices, and usually a brief country note.

Quarterly, we now prepare each quarter's accounts, complete in all respects of balance sheet, profit and loss account and all that the annual report and accounts will normally contain. The quarterly accounts are duly audited by the Chief Internal Auditor, who presents a detailed report direct to the Committee of Management and the Board of Directors. As the quarterly accounts become more refined, reports for the four quarters added together will give us the year's total account.

Apart from giving us a complete picture of Corporation's activities, the Quarterly Report will enable us to close the year early. Annual accounts that used to be closed at the end of September will be closed this year by end of June, and next year, we hope, even sooner. The great advantage of closing the annual accounts early is that our Accounts Division can then get on with the current year's accounting which tends otherwise to be neglected till the Annual Report and Accounts are out of the way.

And let me add that such systems are not just a purism; they have a concrete value. As an example they have led us to a position where while we used to have a credit limit of Rs 20 crores for a turnover of Rs 123 crores, today we rarely need more than Rs 2 crores, at turnover of Rs 210 crores, and in many weeks we even have surplus cash. Our overdraft consequently came down drastically from Rs 13.6 crores on 1-4-68 to Rs 3.7 crores on 1-4-69 to a credit balance of Rs 1.4 crores on 1-4-70.

While the weekly reporting is sent to all our senior managers, monthly review is sent to Ministry, the Quarterly Accounts are also widely circulated in the press, associates, chambers and our sister undertakings in the public sector. The Planning Commission has recently begun to take interest in them and are going to meet us twice a year to discuss our performance to enable them to know what funds are likely to be generated by our Corporation.

This then is our new Accountability; in concept and in practice. It has a long way to go — to a weekly profit

and loss account one day; something that in my previous incarnation used to be placed before me every Tuesday afternoon, with a plus or minus five per cent accuracy over the year, and the annual accounts ready by the third week after the year ended.

But, Accountability, no matter however well conceived and well discharged can only be means to an end — and the end in our case is a better service.

Government has declared its intentions to channel international trade increasingly through its public corporations, of which your Corporation is one of the leading. But before entrusting it with such heavy responsibility, it has the right to feel assured that it can handle the job efficiently and profitably to serve the larger interest of the State and Industry.

Just over two years ago when the Review Committee was appointed it was asked "to make a review of the trading techniques and methods of the State Trading Corporation and its present organisational structure with a view to take necessary steps for further strengthening and improving its operational efficiency". We were told that the Corporation had grown rapidly over its life of twelve years and was now faced with new and exacting tasks and some unfamiliar responsibilities; it would therefore be desirable to ensure that it has the capacity to cope. The Review Committee made its recommendations which, I am glad to say, were all accepted. It was from then on the Corporation's task to implement them and accountability was such an attempt.

Over the last year new areas were entrusted to the Corporation, many of them unfamiliar, and over the coming year yet new areas are being and will be entrusted. In face of it, it would be an understandable question to ask how will the Corporation fare in fields where it has no knowledge or experience? This is so with large organisations the world over, whom growth is always posing new challenges of an unfamiliar kind. An enterprising management will make bold to enter new and unfamiliar areas undeterred by its lack of experience, but with the confidence that the way it developed new expertise in the past it will so develop it in the future.

In the face of the new, there will always be some teething troubles and some mistakes made. These will be more easily overcome because the Corporation feels strengthened by the empathy and patience of Government and In-

dustry whom the Corporation seeks to serve. I would therefore like to convey the reassurance that through its reorga-

nisation and renovation the Corporation is now ready to take over new tasks and discharge them well.



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

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Major Exports and Imports

Exports		Imports	
	(Rs crores)		(Rs crores)
Food	1969-70	Food	1969-70
of which	1968-69	of which	1968-69
Fish and fish preparations	345.54	Wheat	320.61
Fresh fruits and nuts	30.83	Rice	403.06
Sugar	59.95	Other cereals	184.33
Coffee	8.84	Fresh fruits and nuts	58.25
Tea	10.46	Dried fruits	57.47
Spices	19.62	Milk and cream	18.40
Feeding stuff for animals	124.50	Crude materials, inedible, except fuels	34.22
Beverages and Tobacco	17.96	of which	37.60
of which Tobacco unmanufactured	34.49	Crude rubber	9.08
Crude materials, inedible, except fuels	51.37	Pulp and waste paper	8.38
of which	23.71	Wool and other animal hair	7.60
Hides, skins and fur skins	231.39	Cotton	13.71
Oilseeds, oil nuts and oil kernels	212.00	Vegetable fibres other than cotton and jute	189.87
Wood, lumber and cork	8.45	Fertilisers, crude	9.62
Wool and other animal hair	8.24	Sulphur and unroasted iron pyrites	12.47
Cotton	6.90	Ores and concentrates of non-ferrous base metals	10.43
Jute	4.96	Mineral fuels, lubricants and related materials	11.23
Iron ore	17.77	of which	90.18
Ores and concentrates of ferrous base metals	4.22	Petroleum, crude	9.31
Crude animal and vegetable materials	94.62	Petroleum products	8.51
Mineral fuels	88.40	Vegetable oils and fats	12.60
of which	37.29	Animal oils and fats	
Petroleum products	12.10	of which	
Animal and vegetable oils and fats	7.42	Vegetable oils and fats	
Chemicals	5.07	Chemicals	
of which	30.30	of which	
Mineral tar crude chemicals from coal and petroleum	3.77	Organic chemicals	
Dyeing, tanning and colouring materials	4.03	Inorganic chemicals	
Medicinal and pharmaceutical products	5.97	Dyeing, tanning and colouring materials	
Essential oils and perfume materials	4.00	Medicinal and pharmaceutical products	
Plastic materials	7.12	Fertilisers, manufactured	
Manufactured goods	6.87	Plastic materials	
of which	3.79	Manufactured goods	
Leather	629.99	of which	
Rubber manufactures	80.53	Paper and paperboard	
Paper, board and manufactures thereof	4.68	Textile yarn and thread	
Textile yarn and thread	4.88	Pearls and precious stones	
Textile fabrics, other than jute and cotton	40.92	Iron and steel	
Floor coverings, tapestries	10.92	Copper	
Cotton manufactures	16.27	Zinc	
Jute manufactures	15.71	Tin	
Pearls and precious stones	86.63	Lead	
Iron and steel	87.97	Machinery and transport equipment	
Copper	204.97	of which	
Aluminium	41.97	Agricultural machinery	
Finished structural parts	86.83	Metal working machines	
Machinery and transport equipment	4.05	Textiles and leather machines	
of which	3.12	Power generating machinery, other than electric	
Machinery other than electric	7.55	Power machinery, electrical	
Electric machinery	11.25	Telecommunication apparatus	
Railway vehicles	24.04	Railway vehicles	
Road motor vehicles	14.55	Road motor vehicles	
Miscellaneous manufactures	0.83	Aircraft	
of which	11.13	Ships and boats	
Clothing	63.09	Miscellaneous manufactured articles	
Footwear	21.61	of which	
Developed films	9.23	Scientific apparatus	
Collector's art pieces and antiques	4.35	Photographic supplies	
Commodities and transactions not classified	15.08	Printed matter	
All exports	5.06	Commodities and transactions not classified	
	1408.64	All imports	
	1354.19		
			69.72
			89.43
			1567.49
			1908.63

Source: Department of Commercial Intelligence and Statistics, Government of India, Calcutta.

In the last three years, ITC/ILTD together earned an average of Rs.10 crores a year in foreign exchange



India Tobacco Company Limited and its tobacco supplier and sister organisation, Indian Leaf Tobacco Development Company Limited, are the largest net earners of foreign exchange in the entire tobacco industry in the country. Through exports of unmanufactured leaf tobacco—and of some cigarettes—they earned Rs. 71 crores in foreign exchange from 1958 to 1968.

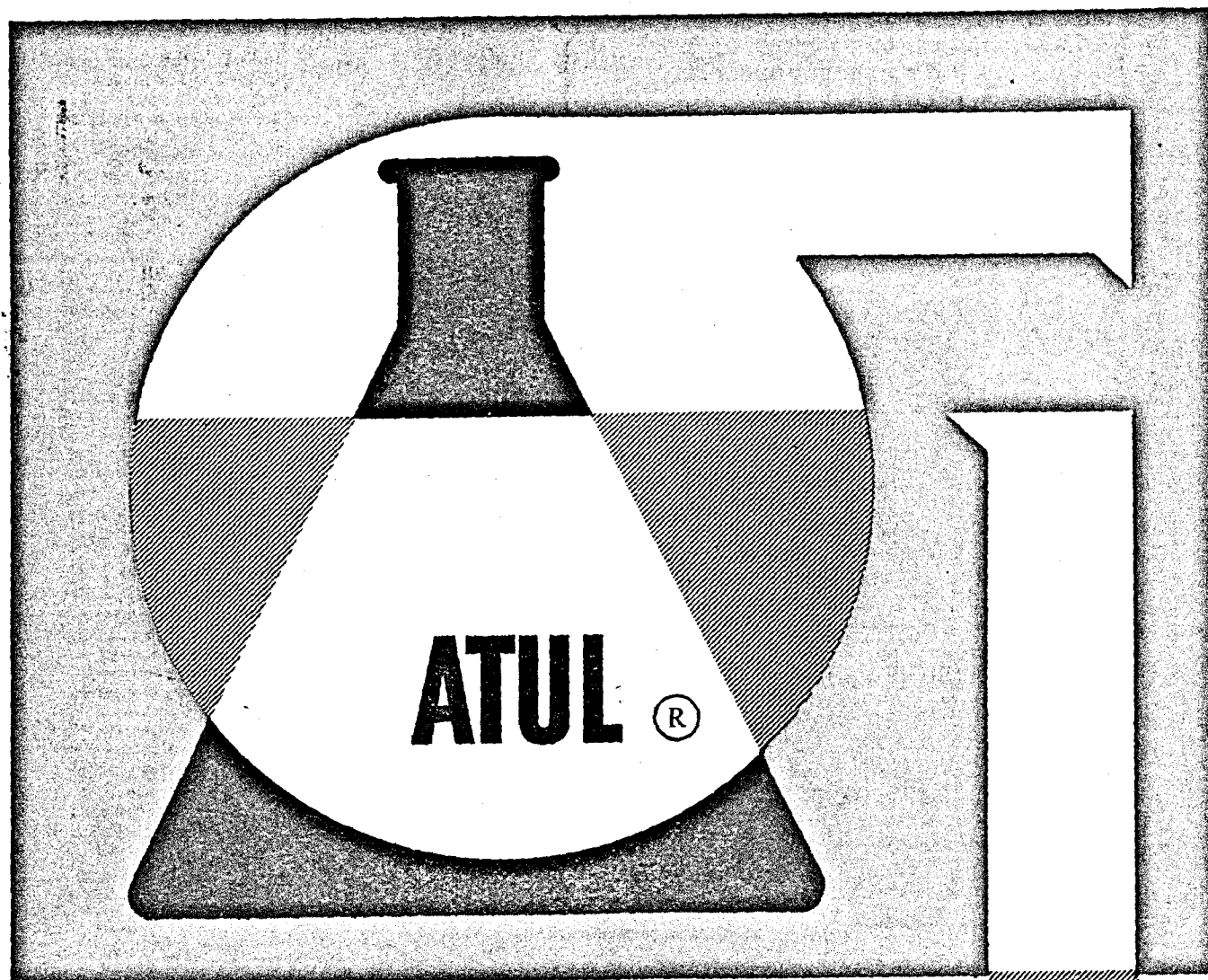
In the last three years, these exports have been worth an average of Rs. 10 crores per year. Indeed, Indian Leaf Tobacco Development Company Limited, received the Government of India's Certificate of Merit for Outstanding Export Performance for the period 1966-68.

India Tobacco Company Limited and Indian Leaf Tobacco Development Company Limited together are determined to continue doing their very best in this vital national task of earning more foreign exchange, with the willing help and active co-operation of their overseas associates, despite increasing international competition.

India  Tobacco Company Ltd.

August 8, 1970

Regd No MH—1393



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WEEKLY

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Vol V No 33

August 15, 1970

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ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol V No 33 August 15, 1970

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ECONOMIC AND POLITICAL WEEKLY

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Minus the Gloss

THE price situation has attracted considerable attention recently. It has been the subject of discussion in Parliament, though Government, while undoubtedly perturbed at the price trend, does not appear to be aware of the gravity of the problem. The Finance Minister's meaningless claim that deficit financing by the Centre had not been responsible for the rise in prices is as good an index as any of the vacuity of the Government's thinking on the subject.

During the past twelve months, it is true, wholesale prices have risen by only about 3.5 per cent. But this comparison does not reflect the situation correctly. Prices have risen by about 7 per cent over the level of mid-November 1969 and what is really disturbing is that they rose during the busy season when they normally show a decline. On present indications, by October this year the price rise over the last year may well be as much as 8 to 10 per cent. Further, it is not merely the prices of agricultural raw materials like cotton, oilseeds and jute which have gone up; foodgrain prices too have risen. Also disturbing is the sharp increase of about 8 per cent in the prices of manufactured goods. Prices of manufactured goods have so far generally not risen by more than about 3 per cent per year.

The other significant thing to note is that these price increases have taken place when investment activity in both the public and private sectors has been admittedly sluggish. What would have happened if investment had in fact come up to the levels necessary to fulfil the five-year outlay targets of the Fourth Plan? The fact is plain enough that we are witnessing the re-emergence of the structural imbalance between the growth of agricultural production and that of industrial output that had acted as the major constraint on the overall pace of growth of the economy and the rate of investment between roughly 1962-63 and 1967-68. The agricultural sector's failure to grow fast enough had caused an annual price rise of 10 per cent during the period. The recent good monsoons and the technological successes in wheat had glossed over this problem till the last quarter of 1969. Even the Planning Commission had been taken in, for the Fourth Plan speaks glibly of doing away with food imports by 1972-73. But, alas, the gloss is now wearing off and it is once again becoming clear that the imbalance between agricultural and industrial growth remains at the heart of our economic problem.

This need not have come as such a shock if we had not let ourselves be swept off our feet by the so-called breakthrough in agriculture. How partial has been the breakthrough — if there has been one — can be seen from the fact that per capita availability of all agricultural commodities, except wheat, is lower today than it was in 1964-65. Need we look any farther for the basic cause of the recent price rise? As for manufactured goods' prices, they have risen presumably because of delayed adjustments necessitated by devaluation, increases in excise duties and rise in money wages. These adjustments had been held off because of the recession and now that industrial output has revived, prices have been adjusted upwards appropriately.

The recent price rise scare will have served a useful purpose if it underscores how far we are yet from extending the limited success that has been achieved in wheat to the other foodgrains and to the cash crops. Unfortunately, the task of achieving the rates of growth in agriculture — overall and of individual crops — which are implied in the postulated rates of growth of investment and of industrial output has received, since the launching of the Fourth Plan, far less attention than the political slogan of doing away with food imports. Indeed, so long as agricultural output continues to grow at rates lower than these, imports of foodgrains and of other agricultural products can be reduced only at the cost of investment and growth.

There is, of course, a caveat to be entered here. The imports have to be carefully planned and not be *ad hoc* and unplanned as they were during the period 1962-63 to 1967-68. But this is possible only if we have a viable policy of distribution of foodgrains and, indeed, of all strategically important resources — whether they be food or steel or foreign exchange — in short supply. Here we touch on the other major weak spot in our planning effort. Nothing highlights the absence of a coherent policy of distribution as Government's recent fumbling moves, now that shortages have emerged in certain steel items, to go back to the system of all-in controls over the distribution of these items. In foodgrains, on the other hand, even the patchy distribution arrangements that had been put together under pressure of the agricultural disasters of the period 1965-66 to 1967-68 are being taken apart.

But problems which are not squarely faced but are merely swept under the carpet have a way of raising their heads at the most inconvenient moments. They have done so already in agricultural commodities and steel; it may not

be all that long before the present cosy warmth on the foreign exchange front evaporates away too. There was, it will be recalled, in the not so distant past much excited debate on the pros and cons of a dual market in foreign exchange; the Committee on steel distribution had recommended a similar arrangement for steel products; and the same principles of distribution, it had then seemed to many, could be usefully applied to foodgrains.

It is perhaps time to take the dust off some of these ideas and consider whether it is not a fact that their basic relevance to an economy straining to grow fast by forcing the pace of saving and investment is in no way diminished by temporary aberrations in demand and supply conditions — whether of foodgrains, or steel or foreign exchange.

Detente in Europe?

IN August 1968, the Russians marched into Czechoslovakia. One of their pretexts was that the West Germans in collusion with their NATO allies were planning to subvert Czechoslovakia. Yet, just two years later, Russia and West Germany have signed a treaty renouncing the use of force. West Germany has recognised the inviolability of the existing borders of eastern Europe, notably the Oder-Niese line, which is the present frontier between East Germany and Poland. The recognition of this frontier means that West Germany is no longer interested in claiming any right to pre-Second World War German boundaries which enclosed a larger area.

The historical significance of this treaty becomes even more apparent when keeping in mind that only 25 years ago the two peoples were fighting one of the bitterest wars in human history. More than 25 million Russians lost their lives due to that war and about 6 million Germans died in the fighting on the eastern front. If looked at in this perspective, the Russians, more than the West Germans, have shown statesmanship and political flexibility. The Russians have also tacitly agreed that this treaty does not rule out the eventual reunification of East and West Germany or the continuation of Western interests in Berlin.

This treaty is part of a larger drive to seek a *detente* with the West. The Strategic Arms Limitation Talks in Vienna with the Americans, the oft-expressed desire for a European Security Treaty, the pressure on Nasser in West Asia, the soft-peddalling of aid and encouragement to revolutionary forces in Afrasia (Africa, Latin America and Asia), the de-escalation of the space

race, all point to a desire to lessen international tensions and concentrate on building up the Russian economy and standard of living which lag behind that of many less powerful countries. In return, the Russians very clearly expect the West to respect Russia's inner security zone — the buffer states of eastern Europe. Any major political interference within this zone, which Russia considers to be crucial to its military security and to the continuance of her political system, will just not be brooked. America understood this even at the time of the Russian invasion of Czechoslovakia. Western Europe too has now realised this. This deep commitment to buffer areas around its borders is not a Soviet Communist obsession; it is part of a long, historical Russian tradition. This partly explains why the Russians, though willing to be flexible on most other international issues have been rigid in their dealings on the demarcation of their border with China. They seem incapable of overcoming their fear of a major, independent power having a border with Russia with no intermediate area in between.

Apart from its relations with China, the Soviet Union, helped to an extent by a relatively closed society, has shown a diplomatic skill and dexterity which the Americans seem to be incapable of due to inner compulsions, including an economic elite which exerts strong political pressures to safeguard its economic interests overseas, and which in consequence has involved America in foreign military adventures which are difficult to retreat from.

Another reason for the Soviet Union's mistrust of China is, of course, the fact that USSR is now a *status quo* power and is no longer openly committed to those international economic and social forces which seek change in order to build a more egalitarian world order. In this context, the Russian-West German Treaty, the cosier relations between Russia and the West and signs — such as the warmth of Sino-French relations and the increasing frequency of Sino-American meetings in Warsaw — indicating that China also might be on the way to becoming a *status quo* power, do not augur well for the poor countries of Afrasia. If all the big powers develop a vested interest in the *status quo*, the present international monetary and mercantile structure, which exploits the poor and weak nations for the benefit of the rich and powerful, will become all the more difficult to alter, unless the nations of Afrasia also seek their own unity and present a united front to those who have an in-

terest in maintaining grossly exploitative international relationships.

Uneasy Portent

A Correspondent writes:

EVEN a casual visitor to Bhiwandi today, more than three months after the communal holocaust there in May, will be struck by three things. First, communal tension in the town and its environs persists and there is very real danger of a fresh outbreak of violence, especially during the forthcoming Ganapati festival. Second, there is an acute sense of insecurity among the minority community. Finally, though the State Government has talked a great deal of its efforts to provide relief to the victims of the riots and to rehabilitate them, there is little reflection of these efforts in the actual condition of the victims.

These three aspects of the present situation in Bhiwandi are, of course, interrelated. Thus, the continued prevalence of tension between the communities and the failure of the authorities to inspire confidence within the minority community that in the event of renewed violence they would get even normal protection have made a large number of Muslims despair of any kind of future for themselves in Bhiwandi. To that extent the efforts — the Government's as well as of some voluntary organisations — to rehabilitate the victims of the riots in May have understandably failed to have their full impact.

The activities of certain avowedly communal organisations and the propaganda openly carried on by them are evident enough to any visitor to Bhiwandi. But what calls for particular comment is the manner in which acts of omission and commission of the local authorities have made a positive contribution to the growth of a sense of insecurity within the minority community. Reports freely circulate about how during the May riots the police and the administration had failed to provide effective protection to the minority community. These reports have yet to be convincingly rebutted. Following the riots almost 4,000 people were arrested for various offences — a majority of them reportedly from the minority community. Many of the arrests were for minor offences like violation of curfew. In fact, when about 1,700 of the arrested were finally produced before a Magistrate they were fined a mere Rs 10 each and released — but in the meanwhile they had already spent a whole month in police custody. Of the others arrested, while

many have been charged with offences that are bailable, very few have in fact been released on bail. A large number of those in police custody are poor powerloom workers; their continued detention and consequent loss of earnings have reduced their families to destitution. Further, the fear of being rounded up by the police is keeping many daily-rated powerloom workers from attending the normal third shift at night; they prefer to lose their earnings. As a result, even powerloom factories which came through the riots unscathed have been unable to resume three-shift working.

The heavy hand with which the law is enforced on the poorer sections of the population is in contrast to the treatment of certain prominent leaders of the communal forces. Not only have they not been brought to book for their role in the May riots, but nothing has been done to prevent them from freely carrying on communal propaganda and fomenting tensions. This is what is keeping Bhiwandi perilously close to another outbreak of violence.

Plastic Performer

WITH the statements by Charan Singh and Kamalapati Tripathi, both issued on Wednesday by coincidence, the bickering between BKD and Congress (R), the two members of the ruling coalition in UP, has been carried to a new pitch of intensity. Till now the two top leaders had left the sniping to lower party functionaries. Evidently the UP Congress (R) leadership has decided that it has little to gain from the restraint it has hitherto observed, partly under pressure from the Prime Minister, towards the Chief Minister and his party. Last month's cabinet reshuffle which Charan Singh carried through without bothering to consult Congress (R) was a blow to the prestige of the latter, especially to that of Kamalapati Tripathi. More recently, carrying on in the same strain, the Chief Minister has taken important policy decisions, such as the promulgation of the preventive detention ordinance and the postponement of nationalisation of the sugar industry by a year, on his own. At the same time prospects of BKD merging with Congress (R) have receded farther than at any time since the formation of the coalition. In fact Charan Singh's latest statement should make it clear that merger is not on the cards any more.

Considering the basic interests of the two parties it appears surprising, in re-

spect, that Congress (R) seriously believed that BKD would merge with it. BKD owed its spectacular performance in the mid-term poll in the State to Charan Singh's success in projecting its image as a rural-based party of middle peasants and lower castes as distinct from Congress and Jan Sangh, both of which are identified with the upper castes and are largely urban-based. Having thus given the party some sort of a cogent economic and caste base, Charan Singh's attempt, especially since coming to power, has been to consolidate it whereas merger with Congress (R) would have been an irreversible step in the opposite direction. The idea of an eventual merger with Congress (R) was a carrot which Charan Singh used to persuade State Congress (R) leaders to accept a coalition in which they, despite the numerical superiority of their party in the Assembly, would play second fiddle. Interestingly enough, the Prime Minister, in her keenness to get rid of the CB Gupta Government, used the merger idea for much the same purpose. Evidently she is still inclined to prevail upon Kamalapati Tripathi and his colleagues to put up with Charan Singh's domineering ways in the interests of sustaining the coalition Government for a while at least.

While Charan Singh realises this, it is a fact that he too has nothing to gain by breaking up the coalition and driving Congress (R) into open opposition. He can fend off attacks on his party from the Right by Congress (O) and Jan Sangh. The Congress (O)-Jan Sangh combination stock line of attack against Congress (R) of being soft on Muslim communalism and on communism will not hold water against Charan Singh and BKD. No one can accuse Charan Singh of being a Leftist and on the communalism issue his position is not very distinguishable from the Jan Sangh's.

The threat to the consolidation of BKD would come from altogether different directions. First, insofar as this consolidation is built on the relative prosperity of the medium landowner in the last few years, a monsoon failure and a poor harvest could create serious problems. A second source of danger is the possibility of the solidarity of the lower castes, which Charan Singh has painstakingly built up, being breached through exploitation of the economic disparities within these castes. Obviously, Congress (R) and the Leftist parties are better placed to do this than the parties of the Right. This is what gives Charan Singh a stake in the continua-

tion of the present arrangement with Congress (R). In fact if he could carry the arrangement into the next elections in the State, he could even hope to improve on BKD's mid-term poll performance.

The Benediction

A Correspondent writes:

THOUGH Government's thought-processes still seem to be unable to go beyond the fact of bank nationalisation, some symbolic significance is, one supposes, to be attached to the Prime Minister's belated act of appending a foreword to the Fourth Plan. The themes of the Prime Minister's benediction are not exactly novel. Social justice is to be achieved simultaneously with growth; the public sector is to act as the leading sector in the economy; both for investment and for self-reliance; the Plan represents "a conscious, internally consistent and carefully thought out programme"; and efforts will be made "to keep production and prices in balance".

The intentions are unexceptionable, as they generally are in all Government statements. The question is how they are to be brought to fruition.

First, the role of the public sector. Even on its own reckoning, there is little here that Government can take credit for — Hindustan Steel's "modest" effort to "educate" (euphemism for "brainwash"?) the newspaper-reading public notwithstanding. Far from being a source of resources for further investment, the mounting losses of Government projects are a drain on real resources. Things have come to such a pass that the possibility of even closing down some of the white elephants like MAMC is being seriously talked about. Nor are public sector projects examples of self-reliant growth, as Heavy Electrical's reliance on imported manpower and components shows.

Take, next, the Plan's internal consistency and expectations of price stability. The Plan investment and targets — for example, in electricity and railways — are unrelated either to local production capacity already established or to overall needs of the economy (see, for example, Nanda's recent statements on the Plan outlay for Railways). No wonder, 17 months after the commencement of the Plan, the economy shows few signs of picking up and any indication of buoyancy is limited to prices.

Finally, the social goals of planning. Though the widespread disturbances in the eastern region reflects the feeling of

hopelessness among educated youth, Indira Gandhi is silent on the impact of the Plan on the employment situation. Similarly, the land occupation movement is an index of the failure of land reforms. The Fourth Plan promises neither a minimum standard of living nor a modicum of essential social services for all.

On the whole, the Prime Minister's foreword to the Plan notwithstanding, it is clear that economic problems continue to enjoy a relatively low priority in Government's thinking. Economic policy is increasingly geared to public relations jobs and even such measures — the projected take-over of cotton trade is an example — are whittled down to meaninglessness by pettyfogging interference by bureaucrats.

A Landmark Disappears

A R Desai writes:

IT is hard to believe that Iravati Karve is no more among us. Though one knew that she had been keeping indifferent health for some time, in personal encounters with her one was still struck by her vitality and intellectual excitement. Last November she not merely came down to Bombay to register her presence at the Golden Jubilee celebrations of the Department of Sociology of the Bombay University, but fully participated in a marathon five-day seminar on modernisation and even chaired a session. This seminar was perhaps the last major academic event in which she took part and all of us who had gathered there will cherish that last memory of her. With her sad passing on this Tuesday, a landmark has disappeared from the world of Indian social sciences.

Born in Burma in 1905, Iravati Karve had her education in India. Graduating with philosophy, she secured her Master's degree in sociology from the then School of Economics and Sociology, University of Bombay. She was one of the first students to take the Master's degree in sociology under the guidance of G S Ghurye. Her study was on the Chitpavan Brahmins of Maharashtra, a caste which dominated the political, social and cultural life of Maharashtra. Through this study, she pioneered the systematic exploration of a branch of sociology which may be called the Sociology of Caste Groups. This subject continued to be the axis for her subsequent inquiries till the end.

Iravati Karve took her Doctorate in Berlin under the well known anthropo-

logist, Edgen-Fischer, acquiring "knowledge of both social and physical anthropology, a combination which in these days of specialisation comparatively few of us can claim". She not only trained herself in philosophy, sociology and anthropology but also blossomed as a linguist. She knew Sanskrit and Prakrit well enough to gaze into the hoary Indian past through original sources. She acquired competence in Gujarati, Hindi and several other Indian regional languages. She also assiduously mastered Tamil to understand the Tamil social system through direct sources. In her own mother-tongue, Marathi, she acquired fame as a lucid stylist.

Iravati Karve was not a dry academic. Married into the family of Maharshi Karve, the zealous crusader for women's emancipation and founder of the well known SNDT Women's University, she performed her many roles creditably. As partner of D D Karve, son of Maharshi Karve and himself a renowned educationist, and mother of two daughters and a son, she lived a full family life. Delicate hospitality, witty conversation and tender personal touch in attending to guests and friends enlivened her home.

Iravati Karve took an active interest in wider social activities. She assisted in the growth of the SNDT Women's University, at considerable personal sacrifice, as its Registrar for a number of years. She joined Deccan College as head of the Department of Sociology and Anthropology in 1939 and continued in that position till 1969.

During her 30 years of academic life, Iravati Karve pursued her scholastic adventures in several fields. She personally explored many social areas, guided a number of research projects, trained students for MA and PhD degrees and, at the time of her death, was still engaged in a number of interesting projects. Along with her empirical inquiries, she also explored library and historical sources.

It will perhaps come as a revelation to many young students of sociology and anthropology that this delicate, elegant, upper caste lady trudged through rough jungles and hilly hinterlands to tribal populations. She roamed different rural terrains of the country to observe the rural masses. She could mingle effortlessly with simple tribal and rural folk. She also entered the inaccessible lanes, bye-lanes and *mohallas* of a number of towns and cities to master the social ecology of these urban communities.

Iravati Karve's contributions to the many disciplines she espoused are embodied in a number of books and papers, both in English and Marathi. Her published works may be grouped as follows:

- (1) A number of monographs containing the findings of her anthropometric investigations of certain communities of Maharashtra and Gujarat.
- (2) Socio-economic surveys of certain tribal populations.
- (3) Her major works: "Kinship Organisation in India", "Hindu Society — An Interpretation" and "Maharashtra — Land and Its People".
- (4) Her works in Marathi, setting out her interpretation of the major characters of the *Mahabharata*.

Iravati Karve's work on kinship organisation in India has been widely acclaimed. According to Hutton, it is "a notable advance in our understanding of the structure of Indian society; it has not been superceded by any other general comparative treatment of Hindu kinship in India as a whole". Along with G S Ghurye's "Family and Kin in Indo-European Culture" and K M Kapadia's "Hindu Kinship", Iravati Karve's work remains an invaluable contribution in this field.

"Hindu Society — An Interpretation" may be considered the quintessence of Iravati Karve's life-work. In this study, she challenges the postulates which dominated the interpretation of the caste system and Hindu society, formulated in the powerful tradition built up by a number of eminent anthropologists and sociologists, from Risley to Ghurye. She expounds her viewpoint, relying upon extensive field research in many parts of India and a thorough examination of relevant Sanskrit and other sources, starting from the *Rig-veda*. This work reveals the strength and weakness of an approach which assumes Indian society to be identical with Hindu society. It also reflects the prejudices of an entire school of Indological scholars permeated with a deep-seated, unconscious Hindu predilection.

With her many gifts, Iravati Karve loomed large on the academic map of India for three decades, as much because of her personality as her scholarship. With her passing away, the Indological scholarly tradition, combining empirical and historical approaches and mastery of many disciplines and transcending narrow specialisations, suffers an irreparable loss.

Protected at All Costs?

SUGAR mills in UP have gone a step further compared to cement manufacturers, who have been asking for continued controls, by manoeuvring for nationalisation. With run-down plants and the lowest sugar yield in the country, it would be more convenient from their point of view to have the State take over their units than to have to close them down or scrap them. With sugar production in surplus and inter-State movement being freed, it was inevitable that the marginal units would feel the pinch. Worse could follow. Government has been toying with the idea of lowering the levy prices as well as the quantum of levy.

The first in the country to go in for sugar manufacture, sugar mills in UP made quick money in the early protected market. Subsequently, as competition from gur and khandsari and sugar from other States more suited to sugar production emerged, they began to conserve on payments for sugarcane and gradually transfer money to investments in other lines. Finally, recognising their significance to the ruling Congress in UP, they even succeeded in getting a resolution for their own nationalisation passed at the Congress (R) session in Bombay last year. In the subsequent legal wrangle they have had little to lose and much to gain.

But the problems of the sugar industry are not limited to UP, though the sugar units in the other States such as Maharashtra, Andhra, Tamil Nadu and Mysore are ostensibly more efficient and have a cost advantage. True, they have been able to carry the demand-and-supply situation from one of acute shortage to one of apparent surplus, thus justifying the official policy of partial decontrol since 1967-68. Gradually, as the mills offered a higher price for sugarcane drawing on their profit margins on free-sale sugar (originally 40 per cent of total production, subsequently reduced to 30 per cent), the area under sugarcane and the quantity of cane offered to the mills increased.

From 2.3 million tonnes in 1967-68 sugar production increased to 3.6 million tonnes in 1968-69 and is expected to exceed 4.5 million tonnes in 1969-70. The producing States have raised a hue and cry about accumulating stocks. Partly, no doubt, this is because the lifting of quotas is slack since the levy of 70 per cent of total production for

rationing may now prove too much. But partly this is because, at the current free market price, larger demand will simply not be forthcoming. And rather than reduce their own margins — which are known to be still handsome for the more efficient units — the mills would turn to Government to build a national buffer stock or to subsidise exports. The supplementary grants for expenditure presented to Lok Sabha this week included Rs 8.20 crores for payment of subsidy for meeting the anticipated loss on exports of sugar.

At the current price level, the 3.5 lakh tonnes of export this year under the international sugar quotas is about as far as we may be able to go — and this year is favourable because international prices of sugar are high. There is little scope for entering the competitive international market in an attempt to sell more than this quantity of sugar, except by paying an absurdly high subsidy. It would be equally absurd to officially commit the banded-about figure of Rs 150 crores to build up a buffer stock of sugar when the more efficient of the sugar mills could, at a pinch, be persuaded to provide their own finance and organisation for a buffer-stock operation which is in their own interest. It is one thing to offer external protection — though even there a calculation of national cost-benefit is necessary — and quite another to protect individual units from mutual competition. The sugar mills must have their own cost-benefit calculations, and it is not without significance that in July this year 49 sugar mills were operating against 23 in the same month last year. It would also be unwise to give up the ration quota at this stage. Rationing caters essentially to the low-income groups, ration sugar is cheaper, and sugar remains an essential enough commodity to make manipulation of its prices both possible and profitable for industry and trade.

If the expert committee that Government plans to set up to look into the sugar industry's affairs helps to put the industry on its feet by indicating its international limits, financial capabilities, internal market possibilities and real costs, it will have done good service. But if it is to be another tool to justify the present stances of industry and Government (see, elsewhere in this issue, "For Whose Benefit?", p 1367), the

country could do without such protection by the committee.

HMT's Opportunity

FULLY ten years after the idea was first mooted, Government has decided to go ahead with the small car project. The car proposed is to be either the French Renault (initially suggested by Mahindras) or the Japanese Mazda. The project is to be put up in the public sector, though public capital subscription and institutional finance will be sought for it. In addition, it appears licences will now be given for car projects in the private sector provided they do not involve foreign collaboration or use of foreign exchange.

Government is also gradually sorting out its policies in relation to the scooter industry. While a decision is still to be taken on the public sector scooter project, the two private manufacturers, Bajaj Auto and Automobile Products, are likely to be allowed to expand capacity to 100,000 units each. Bajaj has offered to reduce its price by Rs 350 after the expansion, and Automobile Products (while it has demanded Rs 150 more immediately for its Lambrettas) has offered to accept a fresh price fixed after a cost scrutiny.

Some of the frills around the Government's decisions are meaningless. It is hardly clear, for instance, how public subscription and institutional financing for the public sector small car project will mean a smaller draft on resources in the overall context. So also, the decision to licence private sector projects for wholly indigenous small cars comes to nothing, since the idea of a wholly indigenous car is a paper dream which may at the most be hawked around for a while — for a price.

Yet in a way the decisions are important. The shortage of cars and scooters at present gives a thoroughly undeserved monopoly position to existing manufacturers. The proposed increase in production will relieve these manifest shortages. Given the specifications and collaborator attitudes, Renault will perhaps turn out to have an edge over Mazda, provided our public sector managers know how to bargain to get the maximum advantage for the country.

The impact of the decisions on local industry is likely to be profound. It is to be hoped that Government will seek to maximise farming out of components, to derive economies of scale, specialised production and investment. This

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will involve considerable planning of self-production and bought-out component supplies. So far as self-manufacture is concerned, it is desirable to maximise supplies of machine-tools from local sources. This is HMT's opportunity.

An Explosive Situation

D C Kale writes:

THE strike at Indian Explosives Gomia factory has highlighted a vulnerable spot in the economy. It has also brought to the fore a nearly-forgotten truism, that agriculture and mining are the two primary sectors of the economy. The spectre of raw materials running short for steel, cement and thermal power stations is much more disturbing than the more immediate loss of employment to some 2 million mine workers, serious as that is. How did this come about? That IEL, which belongs to the ICI group, has a first-class record of labour relations and that the strike was unexpected is only part of the story. It is the country's apparent dependence for commercial explosives on this single source which has to be examined further.

IEL has long been saying that its production capacity is inadequate for the country's needs; Government has for almost as long been aware of the problem. Though it started its hunt for a second manufacturer in 1962, this second plant has yet some time to go before it can start production. It is not known at the moment whether the idea of a plant for manufacture of modern 'slurry' type of explosives, which was mooted for UP, has progressed at all. As a result, IEL has had to put in heroic efforts and produce over 27,000 tonnes of high explosives last year from a plant designed for about half that figure. The Chairman of IEL estimated that it has saved the country about Rs 14 crores in foreign exchange over the past few years by such performances. This is a just boast, matched as it is by an actual reduction in selling prices by about 15 per cent in 11 years. Given such a shining example, why have we run short of new factories? And what can be done about the situation?

The new unit should, of course, be commissioned with the least delay. But one should also look to other means of getting commercial explosives. The ordnance factories produce goods which are basically very similar to commercial explosives. Nitroglycerine, blasting gelatine and TNT are basic to both.

ECONOMIC AND POLITICAL WEEKLY

When the defence production plans are drawn up, it should be possible to include provision for excess production of these. In fact, such excess capacity probably already exists because demand for products of these factories in peacetime is very small compared to demand during emergencies. It is probably a question of blending and packing. This source, then, must be examined.

Our fertiliser factories are the other possibility. In most other countries, a combination known as AN-FO (short for Ammonium Nitrate-Fuel Oil) has largely displaced the conventional high explosives formerly used. AN-FO in turn is being replaced by high-density slurry explosives which are also based on ammonium nitrate. This chemical, of course, is the same as the material now commonly marketed as a fertiliser; this author, among many others, has tried successful blasts with sieved fertiliser-grade AN, and IEL markets, at an exorbitant price, some commercial explosives based on AN. If the fertiliser plants can increase their output of ammonium nitrate, quarry-owners will definitely take to it. At present, with prices fluctuating from Rs 700 to Rs 2,000 per tonne, they can hardly be expected to do so. About four months ago, the Sindri unit of FCI called for inquiries from mine-owners and one hopes that the response will be sufficient for Sindri to take up production in a big way.

Two other types of explosives can be used in mines, quarries and similar operations. One is popularly known as LOX, (for Liquid Oxygen) which can only be available close to oxygen plants. Use of LOX can certainly become more widespread if transport and distribution is improved. The other type is an explosive based on potassium chlorate (generally called Imatrex) which was

'pushed' for a few years in the 60s but which ran into some unusual snags. Potassium chlorate is by itself a very useful chemical for any country to produce; at present we are importing some, and making do with sodium chlorate which is made by WIMCO and others. There is no reason why additional capacity for potassium chlorate should not be established.

Explosives are useless without the means of initiating explosions, and a crisis can just as easily arise if detonators are in short supply. There are two manufacturers today, one being IEL and the other Indian Detonators at Hyderabad (C C Desai group). While plain detonators are also little marvels of manufacture, those called 'delay' detonators represent quite complicated technology. At one time (and perhaps even now) electric delay detonators imported from Hungary and Yugoslavia proved relatively unreliable and became unpopular. Ordnance factories, once again, do produce PETN, lead azide and similar compounds used in detonators and installation of excess capacity there may be advantageous.

Apart from detonators, one requires safety fuse, detonating fuse or plastic ignitor cord for different types of blasting. Capacities for these should also be established separately. The technology involved is relatively simple and suitable for medium-scale industry. The old gunpowder-fuse combination, though on the way out, is still very much in use and will not go unless high explosives and modern blasting accessories become both cheap and easily available. Yet another aspect is the growing tendency towards mining without explosives: already strong in coal, these techniques are also being experimentally tried in metal mines, but they will take some time to be established as serious competitors.

blished as serious competitors.

A point to remember about explosives is that they cannot be stored for indefinite periods and to talk (as Minister Triguna Sen did the other day) of creating six months' buffer stock is irrelevant. For one thing, the stock will be unusable without testing when it is required; for another, a stock of some 15,000 tonnes of high explosives will need very stringent precautions for its storage and for protection of its environs. Even to store 2,000 tonnes of explosives in a place is unusual. In any case, somebody will have to pay for it, at an average price of around Rs 4,000 per tonne. The only long-term remedy is to instal additional production capacity and to use the present capacity wisely.

More, and with Variety

THE past two years have been years of rapid growth for Tata Oil Mills after a long period when it had begun to acquire the reputation of being a stagnant organisation. In the last two years, turnover increased by 70 per cent and profit before taxes and development rebate reserve by 86 per cent. All the principal lines of business have contributed to this rate of growth — soaps, detergents, toiletries, edible oils, new food lines, shrimp exports, and poultry and cattle feed. The improvement in the level of overall performance has been achieved both by entering new lines of manufacture and exploring new markets. The rural market, whose growth potential is presumed to have increased with the higher levels of agricultural production, has been more extensively, and intensively, covered. Export earnings too have increased to Rs 1.84 crores — and no less than Rs 52 lakhs of this are from export (mainly to Japan) of frozen shrimps. Significantly, exports of soaps and toiletries — notably to the East African and South-East Asian countries — have been declining. But to counter the decline which is due to the protective tariffs and other measures of these countries, TOMCO has embarked on a programme of joint ventures in those countries.

Export of shrimps and marine products is expected to go up by 14.5 per cent per annum in the Fourth Plan — twice the overall rate for all exports — and TOMCO is organising itself to use the facilities that may be offered to reach this target. Where, till now, its activity has been limited to buying shrimps wholesale, freezing, and packing them for export, the company now

expects to obtain a licence for trawlers that will enable it to reduce its dependence on purchases. It hopes to fish farther away from the coast where small vessels cannot venture and also to extend its operations to the east coast using its Madras unit as base.

The chairman's speech also hints at a scheme whereby the complementarity of small-scale and large-scale industries is to be exploited — especially since there are restrictions on expansion of the large-scale sector.

One area of the company's operations which feels this constraint is soap manufacture and sale, which remains the mainstay of the company's opera-

tions. In fact, however, the constraint may be inherent more in the structure of the market than in official policy. True, per capita consumption of soap is low in India, but a major part of the market is not sophisticated and finds its needs equally and more cheaply met by the so-called cottage industry units. Unless TOMCO, which with Hindustan Lever acts somewhat as a cartel in soap pricing and sale, manages to lower its costs and prices significantly to reach the poorer consumer, expansion by way of more sophisticated brands to facilitate brand competition within the cartel would be a luxury that consumers could do without.

LETTER TO EDITOR

Industrial Relations Commissions

THE main purpose of the meeting of the Standing Labour Committee last month was to consider the recommendations of the National Labour Commission. A major recommendation of the Commission is the institution of Industrial Relations Commissions at the Centre and in the States. This recommendation was vehemently opposed by all State Governments, except that of Andhra Pradesh, on the ground that the IRCs would involve huge expenditure and that, moreover, the existing machinery for the prevention and settlement of industrial disputes is adequate. Representatives of employers, however, supported the institution of IRCs. One group of workers' representatives was for them while another, which went to the extent of even boycotting the Standing Labour Committee meeting, was against. In spite of these diverse reactions of the various parties, the meeting of the Standing Labour Committee concluded with an agreement to constitute IRCs.

But the agreement is the result of too many compromises. The IRCs that have been agreed upon will be bodies without the spirit which the NLC had intended them to be infused with.

The main functions of the IRCs, as recommended by the NLC, are adjudication, conciliation and certification of unions as representative unions. But in the form in which they have been accepted by the SLC, the IRCs will not have the power of conciliation which will remain with the State Governments. It is essential to recall why the

NLC recommended the IRCs and included conciliation as one of their main functions. The NLC observed, "conciliation can be more effective if it is freed from outside influence and the conciliation machinery is adequately staffed. The independent character of the machinery will alone inspire greater confidence and will be able to evoke more co-operation from the parties. The conciliation machinery should therefore be a part of the proposed Industrial Relations Commission." ("Report of the NLC", p 323.)

The NLC's intention in recommending IRCs was to entrust the settlement of "interest" disputes to an "authority independent of the executive" (obviously the political executive). But the SLC resolution states that the non-judicial members of the IRCs will be chosen from among those conversant with problems relating to industry, labour and management. They need not, therefore, necessarily be those who are "eminent in the field of industry, labour or management", as recommended by the NLC. This relaxation poses a threat to the independent nature of the IRCs, for it facilitates appointment of all sorts of persons to the IRCs on the pretext that they are conversant with industrial relations. Every politician in this country thinks that he is conversant with everything, right from communal riots to nuclear physics. That IRCs will be infiltrated by them may be taken for granted.

D N REDDY

Bangalore
July 28

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Non-Sense Socialism

Ramesh Thapar

WHEN the Minister for Industry opens his innings by announcing Cabinet approval to the small car project, when the Steel Secretary informs us that the gigantic losses of Hindustan Steel are not losses but gains for the nation at large, when a regiment of supposedly faceless bureaucrats in the key economic ministries begins to demand donations from businessmen to the coffers of the ruling party, and when private secretaries and stenographers in the retinue of ministers set up employment agencies for friends and relatives, it is time for Indira Gandhi to stir.

It was assumed that the small car project had been assigned to the charge of Bhanu Prakash Singh, erstwhile princeling reduced to deputy minister, in order that it be devalued and shelved. But, the Industries Minister obviously thinks otherwise. Surely our Government is aware that a small car project in the public sector will solve no problems. It is the demand of a corrupt elite which pursues its own pleasures and refuses to consider the challenging problem of transportation in India. What we need is a massive stress on public transport, not on public sector automobiles for private individuals. Between the two there is a vast gulf — and our theoretical socialists should begin to take note of it.

If Minister Dinesh Singh is anxious to reorganise automobile manufacture — and he should be if he wants to salvage and galvanise the industry — he must move to increase the number of units being manufactured by the existing plants. This is an essential step in curbing costs. And, if he wants to practise socialism, he should institute an immediate investigation into the abysmal state of the industry with the objective of rationalising or nationalising it.

Any group of modern economists would support this kind of approach to the problem of automobile manufacture. Such economists are easily available. Some of their thinking — only some — is reflected in the opposition of the Planning Commission to the small car project. Why is it, then, that the Cabinet gives sanction to such ventures? What are the considerations that make it flout the advice of its own Planning Commission? Are we to rejoice merely because the public sector is to be pushed into yet another field to serve the private sector?

This Non-Sense Socialism is best understood in the elaborate supplement

issued by Hindustan Steel with the daily newspapers. The article by the Steel Secretary is an extraordinary piece of double-talk, particularly when the criteria for efficiency have yet to be worked out. Interestingly enough, the messages sent by the President, the Prime Minister and the Minister-in-charge speak of the need for productivity, effective management and results. These overriding objectives get scant attention in the literary flourishes of the bureaucrats and managers. Indeed, even the facts are used to pull the wool over our eyes.

It is worth recalling that when the million-ton plants of Hindustan Steel were established, they were designed to be operated by a work force of between 7 and 10 thousand men. Jamshedpur at that time was functioning with something like 25,000 men for one million tons. Expansion plans were feverishly launched in the private sector to improve the worker-output ratios. The same work force was mobilised to produce two million tons. There was deep fear that, if public sector steel performed efficiently, there would be no future for private sector steel.

The story of public sector steel, as it unfolded, is well known. Under the inspiring leadership of our bureaucracy, the inefficiency of public sector steel is now helping to swell the profits of private sector steel. Each plant has a work force of anything around 25,000! Production is way down. The Chairman of Hindustan Steel is naturally the most active exponent of price increases — only that can camouflage the losses! It's all in the interest of development, we are told. As a result Indian steel has the highest cost of production in the world — and, perhaps, is the most inferior in quality judging from consumer reactions. Naturally. At Wakayama, near Osaka in Japan, 14,800 workers produce 8 million tons of steel! We should stick this fact into our socialist pipes and inhale deeply. And the Steel Secretary should start on a re-think for the next Supplement designed to coincide with the next session of Parliament . . .

If steel has produced such results, what will the small car project do. With the way things are, we'll soon have a lobby in the public sector for an increase in car prices. And the shares of automobile manufacturers in the private sector will boom. The Industries Secre-

tary will then read us long homilies in the style of the Steel Secretary on the benefits of losses in the public sector. The Cabinet had better take a second look at the small car. If the public sector has to perform in transport, let it go in for the mass production of passenger buses — a neglected field, and one most necessary for the fulfilment of socialist objectives.

In this kind of economic climate, the only growth rate which is phenomenal is that of cynicism. It finds its most potent expression in corruption or, what is called in local parlance, "the over and above earning". It's at every level and carefully institutionalised. The approaching election has given it a dynamic buoyancy. Under the label, "donations to the ruling party", minister, bureaucrat and clerk are having a field day. The Prime Minister should reflect upon the possible implications of this and instruct her Secretariat — and, now, the several intelligence agencies under her command — to collect the evidence from the men who have to deal with the administrative jungle. The evidence is difficult to locate because there is a general fear of vendettas. The fear will persist so long as action is not taken, particularly against the main culprits whose activities are well known.

The cynicism and corruption will begin to leap if the measures to curb giant business concerns are applied without imagination. Already the impression is sought to be created that the Ministry of Company Law, now separated from Industry, is to dictate who grows and who doesn't. This, again, points to danger. Monopoly cannot be curbed in a way which paralyses development. This is precisely what can happen. Interested lobbies can keep us tied to the petty calculations of inefficient, small producers in the name of socialism. We must, on the contrary, find new and creative answers to these problems. Without these answers, the jobs available will dwindle. And if we don't create jobs, nothing will survive.

The Prime Minister cannot let these problems simmer. She will have to revive the *elan* of the Planning Commission now treated as a left-over of yesterday. It is here that assessment and co-ordination must take place. A re-organised Planning Commission, committed firmly to the objectives of the ruling party, must once again become the brains' trust of the GOI. A worthwhile thought for the ruling politicians as August 15 approaches . . .

August 10

NEW DELHI

For Whose Benefit?

THE prolonged clamour over nationalising the sugar industry in UP is now expected to subside. The UP Government has decided to take no action for the time being. The Union Ministry for Food and Agriculture has announced that it will appoint a committee to go into the working of the sugar industry in the entire country. And Fakhruddin Ali Ahmed, who heads the Ministry, has clarified that, any policy that is evolved would apply to the industry as a whole and not only to the units located in UP.

In the legalistic wrangle that had preceded all this, the UP Government might have just made it. For, though the Advocate General of UP was quite definite that the nationalisation of the sugar industry was not within the scope of the State Government, the legal advisers of the Union Government were divided. The Law Secretary agreed with the UP Advocate General, but the Attorney General suggested that UP could proceed with the nationalisation measure if that was considered desirable and take the risk of being challenged in the Supreme Court which alone could then give the final verdict. The legal objections stemmed mainly from the fact that the sugar industry is covered by the Industrial Regulation and Development Act, under which only the Centre is empowered to take over the management of a private factory or otherwise to regulate its working and State governments are barred from having any formal say in such a matter. While take-over of the management of a factory and outright acquisition of a factory are two quite distinct acts, the supremacy of the Centre on matters concerning industries falling within the jurisdiction of the Central Act is, anyway, definitely established.

What gives the controversy over the UP sugar industry's nationalisation its particular flavour is not, however, the legal problem involved; it is the political motivation behind the demand for nationalisation of the sugar industry in UP and in UP alone. Also, the Centre's willingness to lend an ear to the demand was surprising, to say the least.

There has been no explanation or rational justification of why the UP sugar industry should be the first candidate for nationalisation even if Government meant to embark on a policy of large-

scale nationalisation — which in any case it has strongly discounted. The report of the three-man committee appointed by the UP Government to go into the question of nationalisation of the State's sugar industry, dutifully endorsed the demand for nationalisation but gave no cogent economic reasons for its views. What it did was merely to recount the well known fact of the decline of the sugar industry in the State. And, even while it strongly disapproved of the social irresponsibility shown by the sugar factory owners in UP, over payments due to cane-growers and labour, and held the owners responsible for the transfer of assets from the sugar industry to other ventures even at the cost of neglecting to renovate or modernise the sugar industry in the State, it did little more than bemoan UP's decline from its earlier dominant position in the sugar industry of the country. Also, while it traced the emergence of other important centres of sugar production such as in Maharashtra, Tamil Nadu, Mysore, etc, it glossed over the reasons for their inherent superiority.

ERA OF NATIONALISATION

When the 14 commercial banks were nationalised, the Prime Minister repeatedly emphasised that the intention was not to open an era of nationalisation in the management of the economy. Yet the ruling Congress party passed a special resolution at its very first session in Bombay calling for nationalisation of the sugar industry in UP. And the demand for nationalisation perceptibly acquired greater importance with the formation of the coalition ministry in UP in which the ruling Congress became a partner. So, though the proposition has been dropped now, or shelved for the time being, it calls into question the bona fides of the political leadership's approach to economic policy issues. Whether it be the decision to set up three new steel plants in the South ("The Politics of Steel", August 8, 1970, pp 1326-1327), or the working of the Monopolies Commission, or the operation of the new Industrial Licensing policy, it is political pressures and attitudes that seem to override economic considerations. The latest in the series

is the Union Cabinet's approval of a project for small car manufacture in the public sector, even though the project had been firmly turned down by the Planning Commission and has no place in the Fourth Plan.

The Centre's favourable disposition towards the UP industry's nationalisation raises the more basic question of its policy with regard to nationalisation. Is it Government's intention to nationalise all sick industries and/or industries in which private owners have not carried out their social responsibilities towards labour, consumers, or agriculturist suppliers? If so, it would conflict with the earlier established policy of investing the limited public resources in development of industries of greater relevance to any programme of rapid industrialisation.

With economic calculations having a subsidiary significance in economic decisions, the resignation of Bokaro Steel's Chairman Sondhi need not cause surprise. True, it has embarrassed the Steel Ministry which had been smugly holding forth promise of the first stage of the plant being completed in time. According to the new schedule, which is three years behind the original time-table, the first stage of 1.7 million-tonne capacity is to be ready in March 1973. It is, nevertheless, privately admitted that even on an optimistic view it will not be possible to attain the rated capacity production before the end of the first year of the Fifth Plan, i.e., 1974-75.

Now Bokaro's Chairman has warned that even the revised construction schedule will be impossible to maintain at the existing pace of deliveries of equipment and of design drawings. He has put the responsibility for this on all the agencies concerned — including the Soviets who, as the suppliers and principal consultants, are to provide the equipment as well as the design drawings. Supplies from the Heavy Engineering Corporation are in a sorry mess, indeed, and there seems little chance of any improvement. Off-loading of orders to the private sector and to the Soviet Union is now being actively considered. A major part of the supplies from the HEC in any case comprise imported components and even then there is considerable rejection of items because of defects — another count on which doubt is cast on the Soviet role, since a large number of Soviet specialists are still working at Ranchi.

SOUTH

DMK Doldrums

Mohit Sen

PANCHAYAT election results anywhere are, of course, not an accurate indicator of the popularity or otherwise of different political parties. All kinds of local influences, problems and personalities play at least as important a role as the programmes and policies of the contending parties who, in any event, do not contend as political parties. Panchayat elections, as a matter of fact, are an example of the law of aggregation, viz that, events at a unique and discrete level do not always reveal as much as does the aggregation of events. Results of the Assembly and Parliament elections tell us much more about trends in politics, despite the fact that they are not quite so broad-based nor can the electorate exercise that measure of detailed scrutiny.

It is against this background that one must examine the results of the recent panchayat elections in Tamil Nadu. Whatever may be the qualifications and caution that one adopts, the fact remains that, the DMK has suffered a serious electoral reverse. The days of its marching from one electoral triumph to another seem to be over. As also the times when it could claim that, on its own, it could take on every other party in Tamil Nadu and come through unscathed. After all, if the DMK did not seek for significant allies on a State-wide scale, neither did it confront any important coalition of parties against it. If there had been any such coalition, the DMK might have faced a disastrous collapse.

The results have obviously not been at all what was expected by the overconfident DMK leadership. They had expected that the split in the Congress would have such an adverse effect on its cadres and mass following that Kamaraj would not be able to mount anything like a serious challenge. The Indira Gandhi Congress was not considered worth much notice. And the Left movement was confined to a few pockets in the State and would not be able to rival the DMK on an all-Tamil Nadu scale. The results have confirmed this analysis except for the misreading of the potential of the Kamaraj Congress. That body has done not only better than what the DMK expected, but better than the DMK itself.

What do these results signify? Again, bearing in mind all the limitations of the panchayat election results as poli-

tical indicators, the obvious has to be stated — it is not that the DMK has failed to sustain its advance; it has lost popular support. The corruption and the balancing between the landlords and the capitalist, on the one hand, and the toiling poor, on the other, have come home to roost. As against the Kamaraj Congress, the DMK does not have its previous advantage of being able to project itself as the party of the lower *jatis* and as the party of the Tamils fighting against an indifferent and even hostile Centre, representing the forces that seek to impose the domination of the North. With regard to caste, both the DMK and Kamaraj can make the grade with the semi-submerged sections, if not with the oppressed and the lowliest of the lowly. With regard to the Centre, Karunanidhi is far closer to and has relations of mutual support and understanding with the Central Government. It is Kamaraj who has now taken up the banner of struggle and, indeed, is altogether obsessed with the idea of personally humiliating the Prime Minister.

The challenge of Kamaraj could have been met — if, in the first place, it had been taken seriously — only by moving the DMK to the Left, by taking the battle on to a ground where Kamaraj would have felt most embarrassed by the fact of his leadership of the Syndicate. If the panchayat elections had been converted into something like a struggle against the Grand Alliance or into a bastion in Tamil Nadu for a radical thrust forward throughout the country, the DMK could have cornered its old rival. But this is precisely what the DMK did not do.

And how could it? It has the incubus of an alliance with the Swatantra. Some of its leaders have made corruption not only into a fine art but something akin to a philosophy. Its radicalism was born out of a combination of casteism and chauvinism which had a certain justification but needed to be worked out into a programme and outlook — something which even the late C N Annadurai was not able to accomplish. And this radicalism could not stand the challenge of independent Left-led movements. In the field of the struggles of the working class and much more so in that of the land occupation movement, it showed an attitude of intolerance and repression which destroy-

ed whatever little chance it had of projecting itself as the radical spokesman of the urges of the hitherto semi-submerged sections of Tamil Nadu as well as destroying the potential of an alliance of these sections with the most downtrodden.

The CPI(R), which had entered into an electoral alliance with the DMK in the 1967 elections and which benefited enormously from that alliance, had hoped to be able to move the DMK to the Left. Having failed in an undertaking which was doomed from the start, it has now swung to the position of denouncing this party as the very embodiment of reaction. Obviously, such a posture is meant to catch the eye of Kamaraj — the late Lohia's theory of equidistance is going to be put into service to justify some kind of understanding with the Syndicate. This is a great pity since, even now, a united communist movement, united in action and on the basis of a minimum programme, could have acted as the nucleus of a Left and democratic front that could have won adherents from a number of parties and exerted a powerful pressure on the DMK, leading to significant differentiations.

In this context Subramaniam's attempt to bring a third force into being attracts attention. But this third force cannot function in a vacuum, nor can it leave undecided the question as to which is to be the main target for its fire. In the country as a whole, and in Tamil Nadu, there is no doubt that this can only be the Syndicate offshoot of the still projected Grand Alliance. But this does not mean either that the struggle against the DMK is to be avoided or that the third force has to act as the tail of Tamil Nadu's ruling party. The third force has to acquire independent striking power by neither overlooking the main enemy nor neglecting to advance the struggle of the masses on as extensive a scale as possible.

Should it be possible for the third force to emerge and to adopt the proper strategy of unity as well as struggle against the DMK, the latter would be put even more in the doldrums and be compelled to make the choice of pushing towards the Left. It will not do this on its own, that is true. But it is also true that, through struggle and induced differentiation, a good part of it can be pushed in that direction. A whole-hogger approach of appreciation or of antagonism does not suit the complex entity that the DMK is, nor does it help the advance of democracy in Tamil Nadu.

SOUTH-EAST ASIA

Cementing the Front

THREE new developments have occurred in the communist movement in South-East Asia lately. First, all the communist organisations in the region have increased their activity aimed at mobilising the people for armed struggle, and this increased activity has brought them further gains in areas where such armed struggles have been going on. Secondly, in countries where communist parties are banned, their affiliated organisations, which had remained dormant for the past several years, have been reactivated. Thirdly, the separate movements in these countries have been asked to forge links and unite in one single struggle, by co-ordinating their activities and giving help to each other.

What have been the gains made by communists during the past few months? One is tempted to begin with Cambodia, on which world attention has remained focused since the overthrow of Sihanouk in March this year. There the communists now control the entire north-eastern half of the country, which includes the provinces of Stung Treng, Ratanakiri, Mondolkiri and most of Kompong Thom, Siem Reap and Preh Vihear. In the remaining half, the Lon Nol Government has abandoned the countryside and is trying now only to hold on to the big population centres and to keep the highways open, with its small and confused army and with heavy help from the South Vietnamese army, Thai mercenaries and the US Air Force. There is no hope for it of recovering the lost areas because it fears that any initiative in that direction will only overstrain and weaken the remaining capability of its forces, which are barely able to hold on to the population centres in the face of communist attacks.

These successes have come though the communist attacks in Cambodia are on a much smaller scale than those in neighbouring Vietnam, and so one wonders why they are not launching large-scale attacks to capture big towns, including Phnom Penh itself, in order to end the Lon Nol regime. But attacking and capturing a place is only half the task. The other half, and more important part of the task, is to hold on to it. The communists can hold on to more areas and even to cities only by mobilising more Cambodian people for the

struggle, by arming them and turning them into fighters and defenders of the areas captured. This cannot be done as speedily as capturing a place. In the meantime, they are carrying out a large number of small-scale offensives over a wide area, to get more and more Cambodians involved in the fighting, to train them through it, and thus to create an able and strong force. A big action is for a large number of well-trained people. Several small actions are meant to create a large number of guerillas, who, through their experience in fighting, will ultimately emerge as well-trained communist forces.

The next country which has attracted a good deal of attention in this area is Laos. There, too, the pro-communist Pathet Lao has made significant gains in recent months. In May, after their recapture in March this year of the strategic Plain of Jars-Xieng Khouang area, they captured Attapeu, the southernmost town of Laos, on the borders of both South Vietnam and Cambodia. By doing so they have secured the area through which the US and the South Vietnamese Army used to send patrols deep into Laos to observe the level of flow of them and materials along the Ho Chi Minh Trail in order then to organise bombing raids on the flow. Then, on June 9, the Pathet Lao also captured the biggest town in southern Laos, Saravane.

The Pathet Lao had operated in that area before, but never had they consolidated their hold over southern Laos so much as they did in May and June. This gain was of great significance because it kept open the channel of arms and other supplies to Cambodian communists who were under great pressure from both American and South Vietnamese forces which had entered Cambodia in the beginning of May. Even today this remains the only route through which help comes both to the communists and pro-Sihanouk Cambodians fighting the Lon Nol Government.

These gains in southern Laos also proved of immense benefit to the South Vietnam liberation forces, which were greatly in danger of losing their supplies, especially of arms and ammunition, from the north due to the US and South Vietnamese offensive in Cambodia. The Pathet Lao, by taking over this area, ensured a steady flow of supplies

to the pro-communist fighting forces in South Vietnam.

In South Vietnam the same story of renewed offensives by the liberation forces is repeated. These offensives not only disprove the theory that there is little communist activity during the rainy season but also the assumption that the communists, after their supplies in Cambodian sanctuaries were destroyed by the US forces, would not be able to continue with their attacks in South Vietnam for quite a while, until the supplies were replenished.

In spite of the claim of the American forces that they had captured 20,800 individual and 2,500 crew-served weapons (like machineguns and mortars), and 6,800 tons of rice belonging to the communists in their Cambodian sanctuaries, the liberation forces were able to mount severe attacks both in central Vietnam and in the delta region. After laying a 23-day siege round Hill 935, west of Hue, the communists, on July 23, overran the base of the US 101 Airborne Brigade (paratroopers), which suffered heavy losses as also did the other US forces which were rushed to the brigade's rescue during the siege.

In the southernmost province of Ca Mau, the guerillas in the four days ending July 6 had set ablaze and sunk six military vessels on the Nam Can river. On July 14, they sank another war vessel on the Xang Cai Ngay canal in the same delta region. Two other military craft were sunk in the same area during attacks on South Vietnam forces on July 19.

Besides continuing armed actions in Vietnam, the communists also mobilised the civilian population in the cities, to launch demonstrations and strikes against Government's recent tax measures, repressive actions, and conscription. Throughout May, June and July, students held demonstrations in Saigon with placards denouncing the Thieu Government, and battled with the police. Buddhist priests in Saigon, Hue, Van Tho and other cities have gone on hunger-strikes in protest against Government's policies. In sympathy with the striking students and to protest against their large-scale arrests, Saigon journalists too went on strike in June.

The sending of South Vietnamese soldiers to fight in Cambodia was not liked by men of the South Vietnamese Army. As a result, there have been desertions. However, the South Vietnam Army is so large (over one million men) that the desertions have made little difference to its numerical strength, though

they have succeeded in damaging morale in the South Vietnam army.

Coming to the second point, viz, the reactivation of communist or pro-communist organisations in South-East Asia, nowhere has this reactivation been so marked as in Thailand and Malaysia and to some extent in Singapore.

In Thailand, the communists have created a People's Liberation Army. It has been operating in north and north-eastern Thailand and also in the tail-like strip of southern Thailand, in co-operation with the armed men of the Malayan Communist Party. In the north, the communists have had the support of the Meo tribesmen. According to a recent announcement, guerrillas of the Liberation Army had killed over 300 Thai soldiers in ambushes in the northern Nan province in May and June. On May 22, the guerrillas had completely wiped out a police squad in an ambush in Tung Chang district of Nan province. On May 27 they had annihilated two more squads in the same district, killing 12 men and wounding several others. Of the army reinforcements that were rushed in, eight men were lost in subsequent ambushes laid by the guerrillas. In July they attacked several Government posts and ambushed military convoys.

The Thai army is conducting regular operations in its northern and north-eastern provinces, bordering Laos, with air support. The guerrillas claim that in the Phisanulok, Petchabun, and Loey provinces of northern Thailand, they had shot down or damaged 15 aircraft in April. In north-eastern Thailand, "village defence forces" have been set up by Government to fight the communists. These forces have been under heavy attack from the guerrillas in the Sakon Nakhon, Udonthani, Kalasin, Buriram and Ubon provinces. Surat, Nakhon Srithamarat, Yala and other southern Thai provinces had been under the influence of the Malaysian communists who, during the emergency in Malaysia, were driven into the jungles on the Malaysian-Thailand border. For the past 10 years, these communist cadres have worked among the people in southern Thailand who are mostly Muslim and of Malay stock.

This year, the Malaysian communists began increasing their activity by laying ambushes and disrupting communications. The Malaysian Government sought the co-operation of the Thai Government in "encircling and suppressing" the armed communist force in the border region. The communists are now attacking and ambushing the forces of the two countries in order not to get trapped in that encirclement

In Singapore, the communists had been very quiet for nearly 10 years. But now they are again active, throwing petrol bombs at the community centres run by the ruling People's Action Party, and burning buses. Early this month, in a single day, three buses were burnt and two petrol-bomb attacks were made on community centres.

As for the third move, to forge links among the separate communist movements in the countries of this region, and have them pledge help and support to each other, on August 4 the Central Committee of the Thailand Communist Party called upon its forces "to co-ordinate their action with the three countries of Indo-China engaged in the battle against imperialism and its agents". This move not only marks a new stage in the extension of the struggle in South-East Asia, but also joins communist forces right from North Vietnam to Singapore in one

common struggle. Support to such a struggle has also been pledged by China.

The first call to co-ordinate and support one another's struggle was issued by the leaders of the four countries of Indo-China, at their meeting in a Chinese border town on April 25. The meeting was called by Prince Sihanouk and was attended by the North Vietnam Prime Minister, Pham Van Dong, the President of the Provisional Revolutionary Government of South Vietnam, lawyer Nguyen Huu Tho, the Chairman of the Pathet Lao, Prince Souphavong. Following the meeting, China declared on April 28 that its territory would serve as the "reliable rear" of that struggle. Now Thailand communists, by co-ordinating their struggle with that of Indo-China have in fact provided the link in the chain of similar and connected struggles in this region.

WASHINGTON

The New Establishment

PRESIDENT Nixon has a house in Florida in the south, and a house in California in the west, and he takes care to shuttle between the White House and these two residences as often as he can. When he was questioned on this at his last press conference in Los Angeles, Nixon volunteered that a President never leaves the White House; the White House goes with him wherever he is, and "it must go with him". This, of course, was not said in arrogance. It is not the residence that is relevant but the President. And the presidency is where the President is. That is where the power resides.

But Nixon was, no doubt, also making a more subtle point, which is that, a President must be identified not with one place, however sacrosanct, but with all people everywhere. His frequent visits to San Clemente were not without purpose. They were intended to disengage the White House with what has come to be associated as the Eastern Establishment.

The Eastern Establishment has been a useful cliché, and, in the past, it has been flayed with admirable persistence by Senators and Congressmen coming from the wrong side of the Appalachian Mountains as being responsible for all their woes. Even a Californian President like Herbert Hoover had to depend on the so-called Eastern Establishment, which, to all intent and purposes, was very much reality to non-Easterners. Till about the thirties, and for some time thereafter, the major universities of repute were in the East and these were the ones that provided the hard core of administrators to Government. Also in the East were the great families, as old as America itself. Not to be ignored, too, was the fact that the Atlantic seaboard still remained the headquarters of most of the opinion-making organs, whether in Press, television and radio, magazines or book publishing. The East, indeed, was where the intellectuals gathered.

The pattern has changed today. The Berkeley and UCLA campuses can boast of more Nobel Laureates than Harvard and the Massachusetts Institute of Technology. California challenges New York State; and *The Los Angeles Times* can provide as sound a competition to *The New York Times* as can be expected. It has been left to

Nixon to formalise the dis-establishment of the Eastern Establishment. This he has done with grace and panache. As a result of the President's frequent visits to his western hideout, the west and the rest of the country can identify themselves more easily with the Federal Administration. This is as it should be. The United States is too large a country to have only one capital. Britain can rest content with London, France with Paris, and Belgium with Brussels, but the United States needs more than one — it needs at least two, or at best four capitals.

So it is not that Nixon goes to San Clemente quite simply for a vacation, though, considering the heavy presidential pressures, he must need to take time off. Those in power have to learn to relax; Truman was a card enthusiast and Eisenhower played golf. Johnson was too tense to get away completely from his job and paid the price for that. Nixon has learnt a lesson or two from his predecessors. So, whenever he can, he manages to soak in a little of the vitamin-filled California sun. But it is also that, in the second year of his tenure, Nixon probably feels he can afford to relax. This summer has been generally less tense. The Administration, no doubt, continues to feel anxious, but there have been surprisingly few riots this season compared to previous summers which have been hot and fiery, with troubles roaring across the country. Nixon's popularity is showing a quiet increase. Even youth, it seems, has sobered down.

One reason seems to be that the young people know that, however falteringly, the Administration is bent on getting out of the Vietnam war. The rate of army withdrawal may be agonisingly slow; the tactics — such as the invasion of Cambodia — may be painfully confounding; but neither in the Administration nor among the hawks in the Pentagon is there any zest any more for fighting the war. The man in the street realises this. So do the academicians.

Nixon has yet one more reason to be pleased with himself, though he will be the first to admit that the time to rejoice is not yet. Eight weeks ago no one would have thought that an American peace initiative on West Asia would have had the ghost of a chance of being accepted by Nasser. The initiative

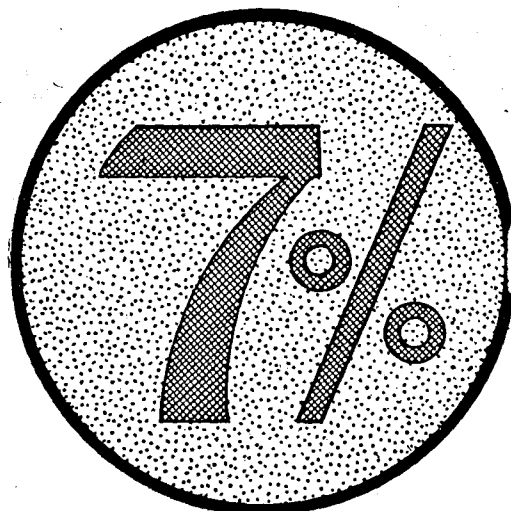
was taken very gingerly, and its contents were kept a fairly closely-guarded secret. Significantly, the pressure was put not on the UAR, but on Moscow. It was left to Moscow to turn on the heat, in turn, on Cairo. Apparently, both the United States and the Soviet Union had learnt to their cost that, keeping their respective clients in battle-order was a costly and futile business. The Israelis could play David only so long as they were liberally supplied with sophisticated offensive and defence weaponry by the western powers, notably the United States. When the Russians realised that, they came forward with comparable weaponry of their own for the Arabs. But it was a costly balance to maintain.

Inevitably then, the Americans and Russians have decided that the time has come to call off the fighting and to settle the West Asian issue that has been hanging fire these last 23 years. Nasser was summoned to Moscow to be talked to. Washington plainly told Golda Meir that, if she did not agree, she would have to face the music by herself. The Phantoms, she was told, would not be forthcoming, nor the cash. The lesson sank in.

It is, of course, premature to say that a West Asian peace is in the bag; but it does not seem so elusive any more. The Arabs will have to accept the fact of Israel and that will be hard for them; but Moscow may be relied on to make the process somehow easy. And, however unwilling the Israelis may be to forewear some of their illegal gains of the June 1967 war, they should be happy that, should a negotiated peace come, their citizens can plan their lives, for the first time since their state came into being, without having to reckon with the possibility of war. That is no small gain.

But can Nixon swing it? Will he really succeed in stabilising West Asia, on the one hand, and South-East Asia, on the other? If he can, he will probably go down in history as a great President, with a second term as a peace President assured. But the ambiguities persist. At his last press conference Nixon said the United States is withdrawing its forces "just as soon as the South Vietnamese are able to defend the country" without American assistance. At that point, he said, "we will be gone". In what then sounded like an empty warning he said, if, after that, South Vietnam still has not worked out a negotiated settlement with the enemy, it would be Thieu's decision whether to continue fighting or not.

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So Easily Damaged?

Nireekshak

CONTROVERSY seems to follow Dinesh Singh. Though with his exit from the Ministry of External Affairs the spotlight has moved away from him slightly and no controversy has yet arisen in relation to his new charge, the Press continues to echo the consequences of his earlier reign in South Block. The latest journalistic reference to the Kalakankar Raja's diplomatic miscalculations was provoked by Madame Binh's somewhat stormy passage — though stormy only in the newspapers — through India recently. By all news accounts, particularly in *Patriot*, *Link* and *Blitz*, Madame Binh's visit has been an unqualified success in terms of the popular interest it has elicited. However, editorial comment in many newspapers was critical. *Nagpur Times*, for example, while it noted editorially that "she came, she saw and she conquered", put this forth not so much as its own opinion of the visit as "how [she] must have felt on her way home from India". The paper has in fact been anything but sparing in its criticism of New Delhi's handling of the visit, which "has not enhanced New Delhi's image in the diplomatic world". And it was Dinesh Singh who was largely blamed. For, "during Mr Dinesh Singh's regime, Moscow hoodoo appeared to play its part, pressurising India to fall in line. Mr Dinesh Singh's exit from External Affairs and Mr Swaran Singh's installation may mend matters hereafter, but Mr Swaran Singh could not avoid a Dinesh hangover". *Statesman* in the same breath even gave a gratuitous chit to Swaran Singh, saying that no one could have felt more relieved at Madame Binh's departure from this country than the new Minister for External Affairs himself. *Hindu* argued that "Swaran Singh could have forestalled all this unpleasantness, [viz] the demonstrations before the Indian Mission in Saigon and Swaran Singh's 'fulminations against the Saigon Government' by cancelling the revolutionary leader's visit which was set in motion by his predecessor, Mr Dinesh Singh". Taking a generous attitude towards the Indian community's activities in Saigon, it maintained that "the Indian community in Saigon, which tries to steer clear of politics, has had to endure the unpleasant consequences of

the visit". If the visit has proved anything at all, the paper concluded with a flourish, it is "that the group to which she (Madame Binh) belongs does not mean to share power with others and all talk of a neutral democratic coalition in the South is largely eyewash". Mail, too, turned to Dinesh Singh in an editorial rather inelegantly titled "Fuss over a Madame", saying "the man who is directly responsible for this shameful episode is Mr Dinesh Singh . . . Had India's External Affairs Ministry given serious thought to possible consequences . . . it would not have extended an invitation to Madame Binh. But the damage has been done".

It is to 'damages' again that the Press referred in commenting on Britain's decision to lift the embargo on arms supplies to South Africa — damages to the Commonwealth, to African interests, and to peace in general. "Apart from the distinct possibility of the South African regime using British-supplied weaponry against the majority of its own people", wrote *Hindustan Times*, "a reversal of the Labour Government's policy in contravention of the UN embargo would lend legitimacy to the Vorster regime". Also, "psychologically it would deal a body-blow to the African people's resistance to apartheid . . . A foolhardy and utterly misconceived attempt to 'save the Indian Ocean' from communist naval domination will invite an obsolete cold war where it does not exist . . . Considering the universal condemnation which the British move has evoked within the Commonwealth, the future of the Commonwealth too is very uncertain unless Mr Heath thinks afresh".

In the view of *Hindustan Standard*, the "resumption of arms sales to South Africa, which the British Prime Minister, Mr Heath, proposes to do, is primarily meant to provide a shot-in-the-arm to the industry concerned to which a market has nothing to do with moral or ideological questions". Describing the British Foreign Secretary's "arguments about keeping the Cape Town route to Asia clear of communist marauders, and his assurance that the arms sold to South Africa would be used only for defence" as "absolutely bogus", the paper invited the Foreign Secretary's attention to Sharpeville and the

Indo-Pak war of 1965, which "should help Mr Home to improve his lamentably poor knowledge of history".

Deccan Chronicle found the British decision "appalling". "With Powellism gaining the upper hand, with Britain trying to square up with the white regime of Ian Smith in South Africa [it is surely Rhodesia the writer has in mind] there is nothing much left to take on the tag of an all-white racist power group. In international politics, too, the non-white people of Africa and Asia will find themselves ranged against this emerging power group".

It was different Press treatment for West Asia. President Nasser's acceptance of the American proposal for a peace settlement was greeted warmly all round. "President Nasser's acceptance of the American peace proposals makes an opening of a kind that has not been there on the West Asian scene for a long time", wrote *National Herald*. Though *Herald* had earlier inveighed against the American proposal when it was first reported, it did not hesitate now to say that "the American proposals for the first time endorse . . . without qualification" the Security Council resolution calling for "the evacuation of all occupied territory by the Israeli forces". This was "the crux of any peace proposal for West Asia".

Tribune welcomed the development with great caution. It was a "time for peace", it conceded, but "peace in the desert war of the Middle East looks like a mirage. It seems so near, yet it is so far". By the way, where exactly is the "Middle East", viewed from Chandigarh? *Tribune* is the only Indian newspaper I know which continues to refer to West Asia as "the Middle East". London, from where West Asia might appear to be "the Middle East", is no longer the fulcrum of the world. "Experience in the Middle East", *Tribune* however went on, "has shown that there is many a slip between the cup and the lip and he is a bold man who would forecast that a settlement is certain".

Times of India, as usual to sound considered and wise, safely said: "a ray of hope [has] at last appeared on the bleak West Asian scene as a result of President Nasser's acceptance of the US proposals". The obstacles to peace were still "formidable" but a "step, however small and halting, towards peace will have been taken if the present moves produce a cease-fire and lead to indirect negotiations . . .".

The Cloistered Nun

Phiroze B Medhora

History of the Reserve Bank of India (1935-51), prepared by S L N Simha; Reserve Bank of India, Bombay, 1970; pp xxix + 878; Rs 50.

IN retrospect, the period 1935 to 1951 appears most interesting, economically no less than politically. Politically, this period marked the more definitive phase of India's progress to Independence, the separation of Burma and Pakistan and the integration of princely States into Indian territory, a World War and the formative years after Independence. Economically, this period saw the first rapid growth of industry during the pre-War and War periods, a markedly inflationary phase, and a phase of reorganisation of the money system, nationally and internationally.

The Reserve Bank was formed in 1935 and it is the period 1935 to 1951 which this volume under review covers. Once the preliminaries are done with, the "History" falls naturally into three parts: Part I, The Formative Years: 1935-39 (pp 121 to 237); Part II, The War Years: 1939-45 (pp 241 to 492); and Part III, The Post-War Years: 1945-51 (pp 495 to 795). Part I is mainly concerned with the Bank's attempts to establish itself, to set up an agricultural credit department, to establish relations with organised banks and indigenous bankers — and its failure to meet the Travancore National and Quilon Bank crisis, the only event of the period. Part II deals with the Bank's role in the War years — the setting up of an exchange control department, accumulation of sterling balances against note issue, and consequent inflationary pressures in the economy. Part III deals with the post-War situation — India's participation in international organisations, currency problems arising out of Independence and formation of Pakistan, nationalisation of the Bank itself, and the first pieces of legislation setting up the Industrial Finance Corporation and regulating commercial banks.

II

The first natural impulse is to deduce that the Reserve Bank, the first properly-constituted central banking authority in the country, would have had a great impact on the course of economic events. After reading the 850 pages of the "History", one comes to the conclusion that in fact the Reserve

Bank did not matter; the "History" provides the reasons why.

Two reasons emerge as primary factors in this unimportance of the Reserve Bank: its constitution initially as a private shareholders' bank, and the limited frame of thinking of its policy-makers.

ODD CONSEQUENCES

In a politically-dependent state, every issue and every event provides a stage for the carrying on of the independence debate between nationalists and the colonial government. The formation of the Reserve Bank was no exception. Despite the politically-dependent status of India, nationalist opinion wanted the Reserve Bank to be government-owned (p 6). The colonial government, echoing antiquated British economic thinking, wanted the Reserve Bank to be constituted in the image of the Bank of England, including its private-shareholding character — according to Simha, "in consonance with the spirit of the times" (p 84)!

This had its odd consequences on the central banking functions of the Reserve Bank. At the banking level, this led to over-cautiousness (*vide*, for example, p 768) resulting, for instance, in inadequate action to gauge up the situation caused by the Travancore National and Quilon Bank (pp 183-190) — the first major banking failure after the formation of the Reserve Bank.

At a broader level, being privately owned detracted from the authority of the Bank and its Board of Directors even *vis-a-vis* the Government. Constituted as it was, the Board always took a broad nationalist view on economic management — for example, on issues like War-time inflation and treatment of sterling balances (pp 291-296). Even on the par value of the rupee, the Board members carried on the long-standing (since 1918!) struggle to fix the value of the rupee at 1sh 4d — a wholly sound demand in the context of competitive under-valuation of currency and gold exports by India in the 1930s (pp 170-175). One can only note wryly that it did not take free India even two decades to knock

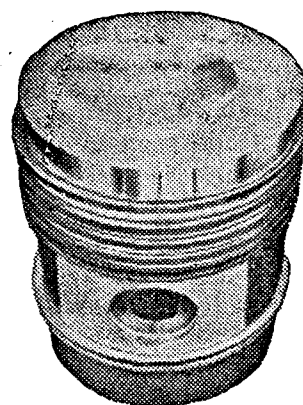
the rupee down below 1 shilling.

On sterling balances again, the Reserve Bank was wholly by-passed by the Government (p 284). The Reserve Bank Board argued for the free use of the sterling balances and against any attempt to scale them down. Sir Purshotamdas recognised the inherent pitfalls in holding the balances and wanted assurances against a watering down of their value (p 299) — but with little response from the Bank authorities. While the Bank authorities were eager to invest the balances in UK Treasury securities to earn interest (at the derisory rates then allowed), they did nothing to ensure the maintenance of the purchasing power of the accumulating balances. Given the course of inflation in the UK, it was almost definite that the buying power of the sterling in the post-War period would be much lower. Secondly, the Reserve Bank authorities never insisted upon a gold or dollar clause being included in the sterling balance agreement. While, therefore, they succeeded in arguing effectively against a formal and direct scaling down of the sterling balances, the UK in fact, reneged on a substantial portion of the balances by letting its local prices rise and by devaluing sterling.

DEBATE ON INFLATION

Perhaps, the greatest debate — which again took on the flavour of the nationalist struggle — was over War-time inflation. This was almost a direct consequence of the two (UK and India) Governments' agreement on War-time purchases by the UK and their financing. The "History" implies that it was the Bank's interpretation of the Act constituting it that it was bound to supply rupees against sterling presented to it (pp 103-104). Apart from whether this was in accordance with the spirit of the relevant clause of the Act, one can question whether this interpretation was strictly legal: what the Reserve Bank was being offered was not freely usable sterling (p 286), but book entries in terms of non-cashable, non-usable sterling. It is not certain that the Bank was bound to issue currency against such sterling (note on p 296 Sir Purshotamdas's comments on the unusual character of the transactions). On the Bank's interpretation, India had the dubious honour of creating currency not as counterpart of its own government's deficits (p 288), but as counterpart of a foreign government's deficits!

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The major consequence of this was the raging inflation which India imported, without being directly involved in, or concerned about, the War. Nationalist opinion railed against it. Significantly, while the Board postulated against inflation, the Reserve Bank abdicated its responsibility, as monetary authority, to control inflation, leaving this wholly to an inefficient fiscal system. While the Bank acquired blocked balances, it used no means to block a corresponding part of the money supply.

This lack of technical capacity comes out most clearly when one reads through the "History". The lack of technical competence is also evident in the Bank's operation of exchange control operations taken up in 1939. While an administrative apparatus was set up for the purpose, the Bank failed to appreciate the economic logic of exchange control and, like any bureaucratic set-up overwhelmed by day-to-day transactions, it failed to create an apparatus for economic decision-making; and this despite the contention of the "History" that exchange control later became "a part of the permanent apparatus of planned economic development" (p 346, as also later on p 632) and despite the Bank's own efforts to induce policy considerations into exchange control decisions (pp 645-660).

III

Keynes referred to the tyranny of outdated economic ideas which govern official thinking and actions. No other country provides a better illustration of the truth of this than India in the period covered by the "History".

By the time the Reserve Bank came to be established, British thinking, influenced by the First War and the depression era, had come to be firmly grounded in acceptance of the cheap money theory. The economic context in India was hardly related to the economic conditions in the Western countries: India had a large agricultural sector, and its commercial banks and co-operatives covered an insignificant part of the credit needs of agriculture: so much, at least, all inquiries into rural indebtedness had clearly proved.

The agricultural problem was so predominant that it found statutory expression in the Act constituting the Reserve Bank, which required it to set up an Agricultural Credit Department. In retrospect, it now appears that this — the setting up of the Agricultural Credit Department — was all that the Reserve Bank did for agriculture!

The problem of agricultural credit was closely linked with two issues which concerned the Reserve Bank in its early formative years: the Bank rate and the treatment of indigenous bankers.

Organised banking was, and is, an island in the vast dual economy of India. There was no bill market in India, and in the absence of independent warehousing facilities, a fiction of a bill had to be created to enable the Reserve Bank to supply credit to commercial banks.

WESTERNISED THINKING

The significance of the Bank rate in such a context was wholly different from that in an advanced country. In an advanced country, the Bank rate is a delicate mechanism to influence — and to make known as official policy the attempt to influence — the cost of credit available to banks. In India's context, given the limited percolation of organised credit in the country, the Bank rate could hardly perform that function. It could only seek to reflect — and thereby gradually to influence — the interest rate structure prevailing in the economy (which meant the agricultural sector). In other words, the only meaningful Bank rate in India would have been the rate for long-term credit in agriculture.

This, of course, hardly fitted into the Westernised structure of thinking of the policy-makers who considered a low Bank rate as an index of modernity (pp 159, 161-162). Lacking an independent banking tradition, this also suited the self-interest of the policy-makers — who were mostly borrowers (the Government, industrialists and traders). The first Governor, Sir Osborne Smith, an Australian coming from the Imperial Bank, could hardly have provided any new thinking on the question. The result was that the Bank rate became essentially the rate for Government borrowing and for limited supplies to favoured sectors like organised middlemen and co-operatives. And the Reserve Bank managed (p 842-843) to pass a span of 16 years beginning November 1935 — involving a major War and consequent inflation, the partition of the country and the preparatory stages of planning — with an unchanged Bank rate! In retrospect, it appears that even the Imperial Bank's management of money prior to 1935 (p 64) was less wooden.

Simha does seek to present an apology for this policy. He argues that there were differences between the Govern-

ment and the Reserve Bank on cheap money — and that these were possibly one of the reasons for the first Governor's resignation. However, on deeper probing, the conflict was evidently between the tweedledum of Government's 2 per cent and the tweedledee of the Reserve Bank's 3 per cent (p 496 and later, p 679 and p 684 onwards). What was relevant to India then was a rate of perhaps 15 per cent.

Simha also seems to suggest that a low Bank rate was intended to influence downwards the whole interest rate structure in the country (p 176, pp 779-780). This argument would have had relevance only in two contexts: if the Reserve Bank had in fact supplied a large proportion of total credit demand in the country so as to bring about a sympathetic reduction in non-Reserve Bank credit rates; or, if, in fact, the rates of interest had gone down. All the Tables given in the "History" show the small element of Reserve Bank credit in the non-government sector (p 795, for instance); and it is a historical fact that rates of interest have gone up, and not down, since the Bank was set up. No greater repudiation of the Reserve Bank's philosophy on interest rates is needed.

NO LINK WITH INDIGENOUS BANKERS

The second reason for the Bank's failure to make any headway in agricultural credit was its failure to establish a link with indigenous bankers. The "History" refers briefly to the indigenous bankers' role before 1935 (pp 40, 62, 75ff). The Bank was obliged under the Act constituting it to explore the possibility of establishing a link with the indigenous bankers (pp 111-112, 157). The Reserve Bank, particularly in the initial years, made some sporadic attempts to establish contact with indigenous bankers (pp 213-218). However, here again, the pristine purity of its banking concepts led to a breaking off of the attempts. It wanted the bankers to give up their trading business (pp 213, 216, 489) — and it even suggested that their agricultural bills, lacking independent warehousing, would not be eligible for rediscounting (pp 191, 473).

Strategy-wise, this was a mistake, as it cut off the Reserve Bank from the mainstream of indigenous finance. It was left to rule the roost of the small empire of organised credit in the country. Had it drawn the indigenous bankers into its fold and made them dependent on its funds, it would have found it easier *later* to cajole them into

giving up their other businesses.

Instead, the Reserve Bank thought it would reach the farmer through the co-operatives (p 205). And particularly after Sir Manilal Nanavati's joining the Bank as Deputy Governor in December 1936, the co-operative lobby acquired further ascendancy within the Reserve Bank. The entire argument got bogged down in the debate over minor rebates on the already low rate for the favoured sectors (p 474ff, p 759, and p 771ff), instead of concerning itself with the problem of meeting in full the needs of the agricultural sector. However, so far as agricultural credit needs were concerned, despite official and Bank support, this proved (as Darling had warned, pp 73, 200-202), a mirage of credit for the farmers.

CHANCE MUFFED

Significantly, the Second War provided the Reserve Bank with another opportunity to become relevant to the credit needs of India. The War provided an assured market for agricultural produce; it solved the problem of the foreign exchange repercussions of an expansionist policy; and, being insulated from world finance, the Bank could usefully have taken up a monetary policy suited to the country's situation. As was to be expected, the Bank muffed this opportunity (p 297).

The Reserve Bank thus got shunted off on wrong tracks: a cheap money policy and provision of agricultural credit through co-operatives, which automatically ruled it out as a factor of any significance in the Indian credit context. (A third alternative would have been for it to take up direct commercial banking [p 5], an idea considered but not taken up seriously.) The "History" alludes to this failure in passing (p 471). Commercial banks which faithfully followed the lead given by the country's central banking authority were to find themselves nationalised in 1969 for their pains. (Incidentally, the demand for nationalisation of commercial banks was first made in a minute of dissent at the time of the nationalisation of the Reserve Bank [p 508].)

IV

The First part of the "History" contains a broad analysis of the Indian economic situation and the role — envisaged and actual — of the Reserve Bank in it. The Second and the Third parts are taken up by the minutiae of administrative details — the treatment

of sterling balances, India's participation in international institutions (p 423, 433-434; here again, after Independence we have managed to lose this year our permanent seats on IMF and IBRD earned with so much lobbying then), financial arrangements arising out of Partition, and, at long last, the passing of the Banking Companies Act. One misses here the grand sweep, the formulation of a strategy, to cover the total credit situation in the country.

The "History" is not without its stock of episodes which perhaps provide a historical precedent to later events. The Reserve Bank's insistence on not reducing the Bank rate is suspected to have led to the first Governor's resignation, in which a Deputy Governor's links with the Finance Member also seem to have played a part (pp 223-224, 275). There are also references to the then prevalent practices relating to civil service appointments to Reserve Bank (pp 95, 125-126, 226) — practices which in the fifties and the sixties have been observed in their breach.

So also there was concern in 1950 that the Central Government might be saddled with financing State Governments (p 700) — a fear that was to come true with a vengeance in the 1960s. And there is a reference (p 785) to the inclusion of procurement operations for Bank credit. In a prescient comment at the time the banking legislation was passed, Sasanka Sekhar Sanyal commented: "The Reserve Bank looks at things more or less as a paper proposition. It is neither responsible nor responsive" (p 741).

BANK AS EMPLOYER

A useful chapter is provided on the Bank as an employer. Typically, rather than meet its staff's demands, the Reserve Bank was not above suggesting a control on staff payments outside the Reserve Bank (pp 822-823) — an interesting insight into the working of the official mind. And in his loyal enthusiasm to attribute success to all that the Bank did, Simha even says regarding the provision of medical aid by the Bank: "The dispensaries were a success, right from the start!" (p 829).

The "History" is a long book, but it is lucidly written. The narration is fair, and not without some shrewd comments (for example, pp 28 and 689 on Sir Purshotandas's connection with the Imperial Bank and Oriental Life, pp 155-

156 on prevailing concepts of central banking, p 288 on deficit financing). The Epilogue seeks to present a fair summation of the Bank's view of its role during the period. While, in the First part, the author gives a broad sweep of the economy, this is lacking in the Second and Third parts which seem to be taken over by official memos and counter-memos; this brings out most clearly that the Reserve Bank had by then settled down into an official posture (consider, for example, this argument against nationalisation of the Bank: "An appraisal of the Bank's working during the short period of its existence was rendered difficult because of the floatation of numerous loans, the repatriation of sterling debt and the administration of exchange control engaged so much of the Bank's attention that it could not have given due consideration to other important problems" [p 508]).

WEALTH OF INFORMATION

The "History" contains one of the best and most interesting descriptions of the origin and settlement of sterling balances and the Indian view of the formation of the International Monetary Fund and the International Bank for Reconstruction and Development. The style is often lively: for example, when the Bank rate was reduced from 3½ per cent to 3 per cent, Simha, quoting the reaction of *Indian Finance*, says: "It sang: As the earth bringeth forth her bud and as the garden causeth the things that are sown in it to spring forth, so the three per cent rate will cause health and bloom to spring forth before all the cities and the countryside!" (p 163). Later, on the Bank's activities in agriculture, Simha mentions that these "did not blossom till about the fifties" (p 199). Details are presented most painstakingly, with references not only to internal memoranda, but to outside journals and public opinion.

One has the feeling, from references (for example, pp 269-278) and quotations (often tucked in at the end of paragraphs), that the Editorial Board has not been as unobtrusive as it should have been. Even then, the "History" contains a wealth of information, compiled and presented in a lucid and objective way — a labour of love rather than an official task performed. There can be only one criterion to judge such a work: does it constitute a model for its successor volumes which would cover subsequent periods? This reviewer would unhesitatingly say that the "History" passes this test.

The Reconstituted UGC

Amrik Singh

The initial impulse for the recent amendment of the UGC Act came from a feeling held by some, and possibly shared by the Union Ministry of Education, that the Centre ought to have a greater voice in the field of higher and professional education.

The proposal to put higher education on the Concurrent list did not eventually get accepted. Given the political situation in the country, this was not an entirely unexpected development. Consequently, in this respect the situation today is what it was in 1963 before the Sapru Committee on Higher Education, which had recommended that higher education should be put on the Concurrent list, was appointed.

The only good thing that came out of the recommendations of the Sapru Committee was its proposal to streamline and strengthen the UGC. The new UGC Act seeks to achieve this objective.

In order to see to what extent this objective will be achieved, two issues need to be considered: (a) the composition and functioning of the UGC in terms of the amended Act; and (b) the social and political situation in the country in which the UGC has to operate.

ONE of the important recommendations of the University Education Commission which submitted its report in 1949 was the establishment of a University Grants Commission for the country. Informally the UGC started working towards the end of 1953 but the Act giving it statutory existence was passed in 1956. Since its establishment it has played, as intended, a leading role in the field of university education. In the course of a review of its working in 1964 (Report of the Committee of Members of Parliament on Higher Education under the chairmanship of P N Sapru), certain difficulties and deficiencies came to notice and the recently amended UGC Act of 1970 is the logical culmination of the review that was undertaken in 1963-64.

It all started with a Member of Parliament moving a resolution at a meeting of the Informal Consultative Committee of the Ministry of Education in March 1963 to the effect that university education should be made a Union subject. This was a matter of fundamental and far-reaching importance, and the Ministry of Education appointed a small committee from among members of the Consultative Committee to consider "the constitutional provisions in all its aspects relating to the co-ordination and determination of standards for institutions for higher education including research, scientific and technical education".

The Committee took approximately a year to report and went through the usual rounds of issuing a questionnaire and meeting a large number of people. The main issue before the Committee was whether higher education could be included in the Union list. As a result

of exhaustive discussions, the Committee came to the conclusion that this was not possible. Since the Government of India Act of 1935, university education had been handled by provinces and the Central Government had only played a supporting role. The University Education Commission (1949) had also not advocated such a course of action. It had only recommended that university education be placed in the Concurrent list. The Constituent Assembly did not choose to accept that recommendation and inserted a few entries relating to education in the Seventh Schedule of the Constitution. One of these entries, Entry 66 of List I, vests in the Central Government powers in respect of "co-ordination and determination of standards in institutions for higher education or research and scientific and technical institutions". Evidently, this arrangement had not worked very satisfactorily and that is why it had been proposed that university education be made a Union subject.

The Sapru Committee felt that this would be going too far and that the purpose would be served by including university and higher education in the Concurrent list. One of the members of the Committee argued that in the existing constitutional set-up it was more advisable for the Central Government to seek to influence policies at the university and professional level through more effective use of the powers that accrued to it under Entry 66 than had been done hitherto. It was said that these powers had not been exhausted yet and that it was possible for the Central Government to make much more extensive and effective use of the resources and standing of the Univer-

sity Grants Commission. Almost inevitably thus, the Sapru Committee was led to a detailed discussion of the role and working of the UGC.

At the time the Sapru Committee was engaged in its deliberations, the UGC had been functioning for almost a decade and it seemed an appropriate time to review its functioning and performance.

The Sapru Committee gave high praise to the work of the UGC. In order to make its functioning more effective, it made a number of suggestions, some of which have been embodied in the new UGC Act. One of its principal recommendations was that the size of the Commission should be enlarged. Instead of 9 members, the strength of the Commission should be raised to 15. Instead of only one whole-time member, the Chairman, there should be five whole-time members. The Committee also recommended that, as in the United Kingdom, serving vice-chancellors should be debarred from becoming its members.

Another problem that had come to the attention of the Sapru Committee was that while the UGC was empowered to give grants to the universities for development purposes, the same could not be done in respect of their maintenance. This had caused all kinds of problems in respect of State universities and the Sapru Committee therefore recommended the removal of this bar.

Several other recommendations of a detailed nature were also made and most of them have been incorporated in the recently amended UGC Act. There was one important recommendation, however, which was not taken note of. In the words of the Sapru Commit-

tee, "professional education cannot be completely divorced from general education". It therefore recommended that professional education including medical (basic), agricultural, engineering and law should also come within the purview of the University Grants Commission.

II

Before the provisions of the new UGC Act are analysed, it seems important to draw attention to the time that the Government of India has taken to amend the UGC Act. The Sapru Committee was appointed in 1963 and reported in 1964. A bill to amend the UGC Act of 1956 was introduced in the Rajya Sabha in April 1966. It was passed by the Rajya Sabha in August 1966. The third Lok Sabha however could not consider it before its dissolution a few months later. Between 1966 and 1970, for reasons not known publicly, the amending bill was not taken up. In other words, difficulties as well as deficiencies in the working of the UGC which had been brought to light by the Sapru Committee were not removed for a period of approximately six years. Considering that the initial impulse for this entire exercise came from a feeling that the Union Government did not have adequate powers in respect of higher education, this seems surprising, to say the least. To make the UGC operate on a reduced level of efficiency after the reasons for it had been identified indicates a slackness of functioning which is not untypical of the way things have been happening in the country for some years now.

III

As stated above, the initial impulse for the amendment of the UGC Act came from a feeling held by some and possibly shared by the Union Ministry of Education that the Centre ought to have a greater voice in the field of higher and professional education. The proposal to put higher education on the Concurrent list did not eventually get accepted. Given the political situation in the country, this was not an entirely unexpected development. Consequently, the situation today in this respect is what it was in 1963 before the Sapru Committee was appointed. As a matter of fact, the only good thing that came out of the recommendations of that Committee was its proposal to streamline and strengthen the UGC. The new UGC Act seeks to achieve this twin objective. In order to see to what extent these objectives will be

achieved, two issues need to be considered: (a) the composition and functioning of the UGC in terms of the amended Act; and (b) the social and political situation in the country in which the UGC has to operate.

The main features of the new UGC Act are:

- (a) The number of members of the Commission will be increased from 9 to 12, out of whom not more than 3 may be appointed as whole-time members.
- (b) Serving Vice-Chancellors and heads of institutions which are entitled under the Act to receive grants from the Commission will be excluded from the membership of the Commission.
- (c) Provision has been made in the Bill enabling the members of the Commission to elect a Vice-Chairman from amongst themselves.
- (d) The term of office of the Chairman will be five years and the term of office of the other members of the Commission will be reduced from the present six years to three years with eligibility for re-appointment for a further period not exceeding three years so, however, that the total period for which a member may hold office shall not exceed a period of six years.
- (e) The Commission will be empowered to give assistance to the non-Central Universities for the maintenance of their special activities like the advanced centres.
- (f) The Commission will be empowered to withhold grants to any University established without the previous approval of the Commission and the Central Government.
- (g) The Commission will be empowered to give grants to institutions deemed to be Universities in pursuance of a declaration made under section 3 of the Act for their maintenance in special cases, development or for other specified purposes.
- (h) The Commission will be empowered to make regulations regarding delegation by the Commission to its Chairman, whole-time members or officers of its power of general superintendence and direction over the business transacted by or in the Commission including the powers with regard to the office expenditure and other matters relating to the internal administration of the Commission.

This summary is taken from the Statement of Objects and Reasons appended to the UGC (Amendment) Bill 1968, as introduced in the Rajya Sabha. While other points would be taken up for consideration a little later, one of them may be referred to here. The Sapru Committee reporting in 1964 recommended the exclusion of vice-chancellors from the membership of the Commission.

The Education Commission however recommending in 1966 expressed itself in favour of the vice-chancellors continuing to be members. As the Education Commission argued, "At least one-third should be from the universities and we should not rule out vice-chancellors being included". But the Bill, as introduced in the Rajya Sabha in 1966 as well as in 1968, provided for the exclusion of vice-chancellors. The exact language used was as follows:

"provided further that no person who is Vice-Chancellor of a University or the head of an institution which is eligible under this Act to receive grants from the Commission, shall be chosen to be a member of the Commission".

The qualifications for membership as provided for in the Bill were in general terms. Except for two officers of the Central Government, the rest were supposed to be persons representing (1) industry, commerce and agriculture; (2) legal, medical or other related professions; or (3) persons who are educationists of repute or who have obtained high academic distinctions. This was presumably regarded as unsatisfactory by the Rajya Sabha and it inserted the provision that the Commission shall consist of "not less than five members from among the officers or teachers of universities". The other provision that serving vice-chancellors would be excluded from the membership of the Commission was allowed to stand.

The Lok Sabha however went a step further and deleted the word "officers" so that now only teachers of universities, not less than five in number, are eligible for the membership of the Commission. It goes without saying that this is a bold innovation in the Indian context and will significantly influence the outlook and working of the UGC.

The Sapru Committee had not made any specific reference to the inclusion of teachers. It had only recommended the exclusion of serving vice-chancellors. The Act, as now amended, has introduced a new emphasis. For one thing, only teachers of universities are eligible. Whether this includes teachers of colleges also or not is a moot point. In certain universities, teachers of colleges are recognised as teachers of universities also. In certain other universities, in fact in the majority of them, they are not. For another, along with vice-chancellors, principals of colleges have also been excluded. Since the number of colleges today is in the neighbourhood

of 3,000, this excludes quite a considerable body of those involved in the process of higher education. It is difficult to say if all these implications were visualised at the time the Bill was drafted. The significant thing to note however is that, as now reconstituted, the UGC (with serving vice-chancellors and principals excluded and approximately half of the strength consisting of teachers of universities) would consist of active academics.

IV

If, however, anyone believes that replacement of serving vice-chancellors by teachers of universities is *per se* going to lead to far-reaching changes, he is bound to feel disappointed. Judged in terms of their respective casts of mind, there is no significant difference between a vice-chancellor and that teacher of a university who is regarded to be suitable enough for the UGC. To draw a distinction between these two categories is an exercise in semantics. The real distinction to draw is between people who have vision, an unwavering sense of realism and a deep commitment to excellence and those who are not similarly endowed. What has plagued higher education in India in recent decades is the absence of such people in any significant numbers. In almost every institution, college or university, a few people who fit this description are to be found. But either they are too few or through a combination of circumstances they are rendered singularly ineffective. Whether such people are found in the ranks of the vice-chancellors or of teachers is a matter of detail. To the extent that the amended UGC Act excludes serving vice-chancellors from the membership of the Commission, it is not a good provision. Some of the serving vice-chancellors would fit the above description admirably and to exclude them just because they are in office is to deny the benefit of their participation to the UGC. That some of them would have to become ex-vice-chancellors in order to become eligible for membership is indeed a measure of the mechanical thinking that has gone into the drafting of the new Act.

The proposal to appoint whole-time members in addition to the Chairman who is in any case a whole-time member is a step in the right direction. Their number is not to exceed three and they are to be appointed only if in the judgment of the Central Government such appointments are called for. The work of the Commission in

recent years has increased to such an extent that it has been necessary to enlarge the staff of the Commission considerably. While it would still be necessary to continue to have the required complement of secretarial staff, it would be an advantage to strengthen the decision-making apparatus of the Commission by including several whole-time members. In his speech introducing the Bill in the Lok Sabha, the Minister for Education said, for instance, that one full-time member might be made responsible for looking after the students' welfare, students' activities and students' problems in the universities and another whole-time member might be put in charge of colleges. This administrative model is being followed in the Railway Board and a few other organisations. To adapt it to the needs and problems of an organisation like the UGC should not be difficult.

It terms of the Constitution, the State governments have the right to establish new universities. If developments in the last two decades are any guide they have exercised this right generously indeed. In a few cases the establishment of new universities was not looked upon with favour by the UGC but this did not inhibit the said Governments from going ahead with their plans. The powers of the UGC, as laid down in the 1956 Act, went no farther than to "advise any authority, if such advice is asked for, on the establishment of a new university or on proposals connected with the expansion of any activities of a university".

In the amended Act, these powers have been made a little more specific and the new provision runs as under:

"provided further that the Commission shall not give any grant to any university which is established after the commencement of the University Grants Commission (Amendment) Act 1970, without the previous approval of the Commission and of the Central Government".

The power to withhold grants was vested in the UGC even in the 1956 Act (Section 14). In empowering the UGC to withhold grants after the commencement of the UGC (Amendment) Act 1970, the new Act does not mark any advance except in one respect. Now it is laid down that previous approval for the establishment of a new university, both of the UGC and of the Central Government, has to be obtained before it becomes eligible for grants from the Commission. Why the Central Government should have been specifically mentioned is difficult to see. Does this not introduce a new element in

the situation? Does it not, in a manner of speaking, weaken the professional character of the UGC? The Central Government may, in a given situation, tend to take a somewhat politically expedient view. But the UGC, in terms of its intentions and constitution, should not be obliged to take any other view except that of a body of professionals who are concerned with co-ordination and determination of standards in higher education. There is a whole host of issues here which in the ultimate analysis may impinge upon the autonomous working of the UGC.

V

There is another aspect too of the grants given to universities by the Centre.

The Centre-State relations in recent years have neither been a model of rationality nor of lucidity. To allow them to be further complicated in any manner would be unwise. In a particular situation, the UGC may withhold grants of a university for genuinely academic reasons. Yet, such a step may be described as punitive by a State Government. The said Government may argue that the withholding of grants to a university run by it is denying to that State its due share of financial aid from the Centre. Whatever may be the nature of the Centre-State relationships, as defined in the Indian constitution, one fact is unmistakable. The Centre has more resources than it can utilise for its own purposes. The surplus, as is well known, is channelled to the States through the Finance Commission which is appointed every five years. The trend in recent years on the part of the States has been to attract more and more funds towards themselves and to that extent qualify the financial overlordship of the Centre. At recent meetings of the National Development Council, several schemes which till recently had been operated by the Centre were transferred at their instance. The trend is clear even though some of the details might be confused or amorphous.

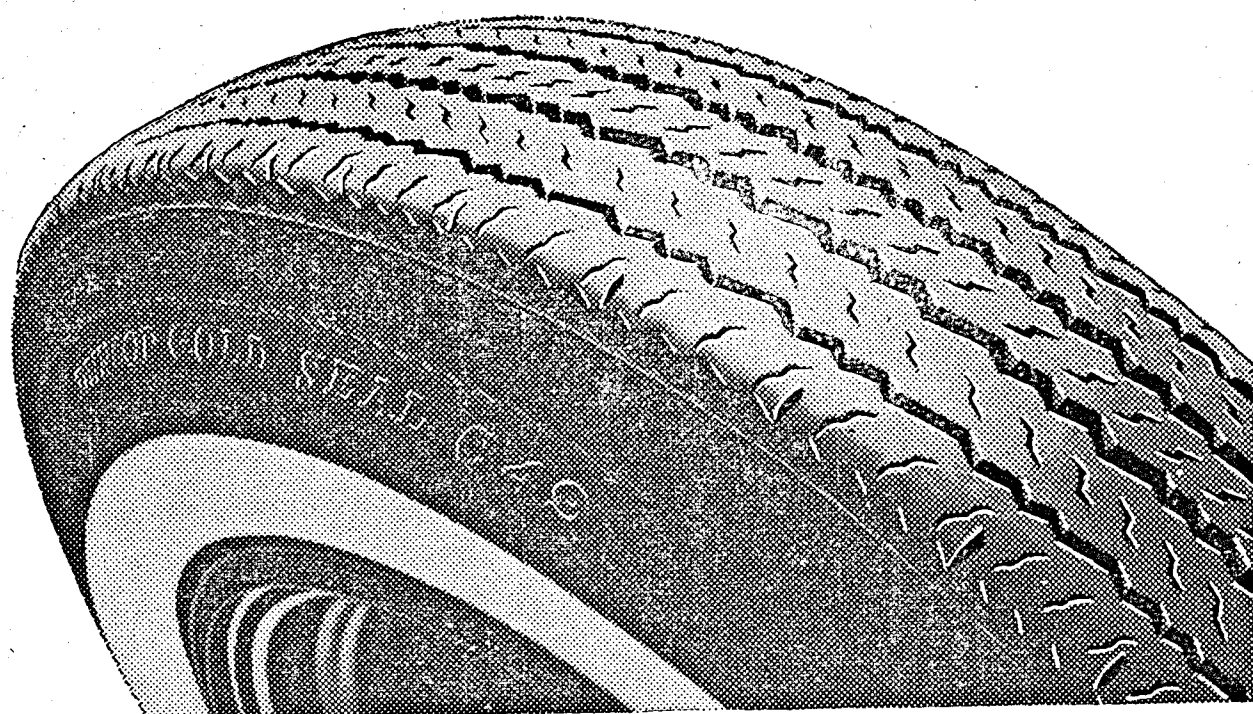
The UGC funds also fall in this category. What the UGC gets from the budget of the Ministry of Education is basically a part of that surplus which the Centre has at its disposal and which it transfers to States either indirectly through the mechanism of the Finance Commission or directly through agencies like the UGC. There would be nothing surprising therefore if the withholding of grants to a State university becomes a political issue one of these days.

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What has been said above is not fanciful or fantastic. There is a fairly vocal section of public opinion which is not in favour of the Centre exercising the kind of overlordship which it has done during the last two decades. One Member of Parliament (Suseela Gopalan) for instance, said in the course of discussion about the UGC (Amendment) Bill that she was opposed to the whole conception of the UGC. She felt that the entire amount earmarked for education should be given to the States according to the proportion of the population and there should only be a co-ordinating centre to look into the affairs. This sentiment is not all that uncommon as to be overlooked completely. What is more, with passage of time it can grow and perhaps will grow. The UGC in its dealings with State universities therefore must, of necessity, give due consideration to political complications that might arise should it, at any stage, decide to withhold grants to a university.

Does it follow therefore that the UGC must all the time look over its shoulders and not do anything which would offend the susceptibilities of the State Governments? If the answer to this question is in the affirmative, the UGC might as well not have been established. The model before the UGC might have been the University Grants Committee in UK but, as visualised in the 1956 Act, its scope and functions are much wider and unmistakably more academic. The British UGC is only a grant-giving body. To the extent that grant-giving is linked up with academic questions, it concerns itself with them. For the rest, academic leadership is provided by the Committee of Principals and Vice-Chancellors which has a close and creative relationship with the UGC in UK.

The UGC, as visualised in India, is different. It has two primary functions. One is to inquire into the financial needs of the universities and allocate and disburse grants to them. The second function which is elaborated at considerable length in the 1956 Act relates to the academic leadership which the UGC is required to provide to Indian universities. It has, for instance, the power to recommend to any university the measures for the implementation of University education. It can advise the Central or any State Government on the allocation of any grants to universities for any general or specified purpose. It can advise the Central Government or any State Government or University on any question which may be referred to it. It can re-

quire a university to furnish it with such information as may be needed relating to the financial position of the University or the studies in the various branches of learning undertaken in that university together with all the rules and regulations relating to the standards of teaching and examinations in that university in respect of each of such branches of learning. What has been stated above is quoted from the UGC Act 1956. The chapter dealing with the powers and functions of the Commission concludes with an omnibus clause which empowers the Commission to perform such other functions as may be prescribed or as may be deemed necessary by the Commission for advancing the cause of higher education in India or as may be incidental or conducive to the discharge of the above functions.

The UGC thus is both a grant-giving body and a body charged with important academic responsibilities. The unique strength of the UGC in India derives from the fact that the two functions have been linked together in statutory terms. That is to say, in discharge of its academic obligations, the UGC is empowered to give grants to universities, Central as well as State. So far it could give only development grants to State universities. According to the new Act, these grants can be given "for the maintenance, or development, or both of any specified activities of such universities". In this respect, the capacity of the UGC to show the carrot has been considerably enhanced.

VI

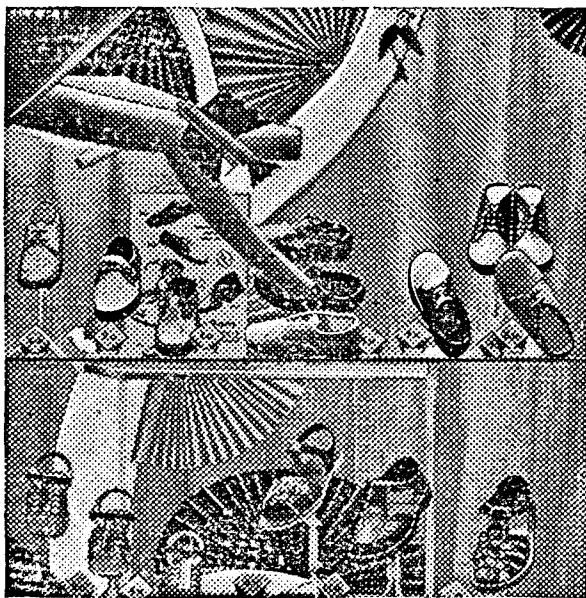
In terms of the analysis given above, it is much easier for the UGC to show the carrot than to wield the stick. The political climate has been changing rapidly in recent years. The increased number of colleges and universities and the virtual doubling of student population in the last decade are significant pointers in this direction. The democratic pressures for access to higher education are so strong that no State Government dare resist them for long. That is why, one by one, old values of academic functioning as well as governance have been collapsing. This was almost inevitable. What is more, these pressures are likely to grow stronger every day and all aspects of planning, including those relating to education, must be based on a hard-headed recognition of this fact. All that professional bodies like the UGC can hope to achieve is to moderate the intensity of

these pressures. To seek to achieve anything more than that would not be realistic. As a matter of fact, the situation in the last decade or so has become more and more vulnerable to these pressures. Professional standards have come increasingly under strain. To reinstate them as the basis for academic judgment, which in essence would be the task of the reconstituted UGC, is not going to be a simple matter. There will be resistance from the State Governments who have got used to a certain style of functioning. Educated unemployment is growing at such an alarming rate that it is beginning to generate peculiar pressures of its own kind. Then there is financial stringency which almost every State has to contend with. Universities are proliferating but sources of financial support are not growing at the same rate of expansion. The situation is certainly not beyond redemption but it is fair to admit that it is difficult.

How best to deal with this difficult situation is a matter which does not admit of a straight answer. Pressures leading to dilution of standards are bound to become stronger and stronger every day. To fight them successfully may not be always possible. What however is within the bounds of possibility is that in the contest between professional standards and pressures to undermine them, standards do not lose always and all along the line. The only hope in this situation lies in the UGC giving itself a greater professional standing. The more firmly its professional character gets established the easier it would be to meet and, in certain cases, sidestep politically motivated pressures. The UGC Act of 1956 is fairly specific on the powers that the UGC enjoys and the functions that it should perform. These were amplified in a meaningful manner in the report of the Sapru Committee 1964. The said Committee drafted a statement and asked the Attorney-General of India to respond to it. The statement of the case made out for the opinion of the Attorney-General is a fairly extensive one and is given as an annexure to the Sapru Committee Report. The following brief extract contains six explicit questions to which the Attorney-General has also given equally explicit answers:

"...The Committee has desired that the advice of the Attorney-General should be obtained on the question of the extent of the implied powers of Parliament to undertake legislation under Entry 66 of List I of the Seventh Schedule to the Constitution, and in particular, the extent to which such im-

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rate is significantly high compared to the digits of traditional cultivation obtaining at this very time in several parts of West Bengal. HYV, though it has failed to take roots in Burdwan because some basic limitations (such as in relation to availability of controlled water), seems to have had an indirect impact by way of boosting fertiliser application for the traditional varieties. The earlier package programme may also have contributed to this. The single village in the sample which could be said to have taken to the high-yielding variety of paddy in a serious way (Santospur, with 9 out of 20 sample households going in for HYV) is not among the highest fertiliser user. The average fertiliser input for this village is worth only about Rs 50 per acre. As to intensity of cultivation, reflecting principally the availability of irrigation facilities, the range among the villages is not very wide. The maximum is about 130 per cent and the minimum of course is around 100 per cent, though in two villages the tendency is for the gross cropped area to be less than the net cultivable area. Another expression of modernisation in agricultural areas is mechanisation. But mechanisation has made hardly any beginning in West Bengal's agriculture except for pump-irrigation, progress of which too is very slow compared to that of States with a high rate of rural electrification. There are no signs in our sample observations of any significant change in this respect.

In 9 out of the 14 sample villages, the average yield per acre of paddy would be above 1000 kg, the highest being around 1400 kg. The district average never reached 1000 kg per acre up to 1967-68; in fact it was often below 850 kg per acre. There has been a tendency for the per acre yield to rise in very recent years. Since HYV are hardly present, this increase cannot be ascribed to the introduction and spread of the new seeds. Nor is there any sign of mechanisation worth the name. It is ascribed, therefore, to the increasing use of irrigation water and fertilisers. Availability of irrigation water is far from adequate, however, and the use of fertilisers is very uneven.

Having taken a view of the district level, we may now try to discover how the indicators of enterprise vary from one class of cultivators to another. In absence of a better choice, the four Census categories, viz, cultivators of land wholly owned (occupation class 11), cultivators of land mainly owned

(occupation 12), cultivators of land mainly unowned (occupation class 13), and cultivators of land wholly unowned (occupation class 14) are used. We can group the first two (11 and 12) together and call them, in a rough way, 'owners', and group the remaining two (13 and 14) and call them 'tenants'.

In eight out of the 14 villages included in the sample, 'owners' tend to have a higher yield per acre than 'tenants'. In two villages, however, the reverse appears true. In the rest, the performance is roughly equal. Per acre input of manure and fertilisers has a similar pattern, and except in one village, the intensity of application is higher (or about the same) in owner cultivated farms than in tenant cultivated ones. In intensity of cultivation, quite often no difference is observed between these two categories of farms. Only in 4 villages is the intensity markedly higher for owner cultivated farms than for tenant cultivated ones.

By nearly all the indicators of enterprise we have examined, the owner cultivators seem to be better performers than tenant cultivators. What seems more significant is not that there exists a difference between the two but that the difference is not very wide.

While the share-cropper, driven by the urge for subsistence tries to maximise his output by putting in more manual labour, there are signs in recent years of fertiliser application in the leased-in land as a joint venture between the rent-receiver and the share-cropper. In the general climate for increasing production, the 'rent-receiver' is beginning to share, though feebly, in the enterprise on his leased-out land.

Given this differential economic performances of owner cultivators and tenant cultivators, it is of interest to know the proportion of tenant farming and owner cultivation in the district. In our 280 sample households only 162 are wholly owners of the land they cultivate, whereas 47 are wholly tenants. Dividing the remaining cultivators of mixed character according to their dominant character, we find that what we have called 'owners' number 198 and the remaining 82 qualify to being 'tenants'. The proportion of land cultivated by the owner group is, however, bigger; while they constitute about 70 per cent of the cultivators, they cultivate about 80 per cent of the cultivated land. The average size of farms is thus bigger for the 'owners' group than for the 'tenants'. For wholly 'owners', the average size is about 6 acres; for the

mixed class, mainly owners, the average size is about 4.5 acres; for the mixed class, mainly tenants, the average farm size is about 3.75 acres; and for the wholly tenants it is about 2.75 acres.

Moving away from the occupational classes to size classes (based on farm size), the size of farm can hardly explain any of the variations in the different indicators of enterprise, such as yield per acre of paddy, input per acre for paddy, and intensity of cultivation. This becomes even more clear when the observations are first sorted out for the different classes and then arranged in the order of the sizes of holdings.

DETERMINANTS OF ENTERPRISE

What makes a farmer more enterprising than his neighbours? We have first selected from among the 280 sample cultivators the 15 who reported having gone in for HYV. We find that out of these 15, 10 belong to the class of 'wholly owners' (occupation class 11) and 2 to the class of 'pure tenants'. Of the remaining, 2 are mainly owners and 1 mainly tenant. Thus the 'owner' class (occupation classes 11 and 12) accounts for 80 per cent of the lot. Even in this group no farmer has taken to HYV in more than an experimental fashion. The highest share of net cultivated area that has been sown with HYV is 33 per cent. In all other cases it is around, or much below, 20 per cent. An indication of the half-hearted and reluctant trial of the HYV programme in the district is that farmers who go in for new varieties do not seem to be very fertiliser minded. Per acre input of manure or fertilisers in rupee terms goes down to Rs 29 at one extreme and goes up at the other extreme to Rs 211 and Rs 308 respectively. The highest figures for intensity of cultivation among them are around 150 per cent and 140 per cent but in most cases it is much lower. This lack of enthusiasm for the supplementary measures needed to get the best out of HYV has meant that 5 out of the 15 cultivators have reported a yield rate for HYV paddy either equal to, or lower than, that of ordinary paddy.

We now select from among the 280 cultivators, the 15 reporting the highest yield per acre of paddy. The range so defined extends from 1688 kg per acre to 1406 kg per acre. Among these best paddy growers, only one has gone in for HYV and he reports a per acre yield of 1570 kg per acre. Another interesting point to note is that these top 15 are mostly small farmers, only 3 of them have a holding of above 5

acres. It is true that Burdwan district does not have many big farmers. But in our sample of 280, the number of farmers with holding size of above 5 acres is 84. Intensity of fertiliser application does not seem to be an important explanation for the high yield. This is because even among the top 15, per acre input of manure and fertilisers in rupees varies from Rs 20 and Rs 40 to Rs 200 and Rs 300. Out of these 15, 11 belong to the class of 'wholly owners', 3 'mainly owners' and only 1 to 'wholly tenants'. This means that the class of 'owners' accounts for about 90 per cent of the high-yield scorers.

We now take up another lot of 15, who rank highest in per-acre input of manures and fertilisers. These also show the same class character — 12 belong to the class of wholly owners and 2 to that of mainly owners; that is, 90 per cent of these fertiliser-minded farmers belong to the composite group, 'owners'. The range of this particular indicator in this top bracket is from Rs 310 to Rs 154. Per acre yield in this group of cultivators varies from 1688 kg per acre to 863 kg per acre. These 15 cultivators count among them 4 out of the 15 farmers resorting to HYV. These 15 farmers are more evenly spread over the size range of

holdings; from this point of view they constitute a more representative sample than the cultivators recording highest yield per acre. Among this 15, there is none who is a pure tenant; only one is a 'mainly tenant'. Once again, the 'owner' category predominates.

In our search for the extent and direction of new enterprise in agriculture in the progressive district of West Bengal, we have thus noted the following points:

HYV seeds, the mainstay of the Green Revolution, feature only marginally in the recent efforts on the part of the farmer in Burdwan to improve his position.

Efforts to increase production are still concentrated around the mono-crop framework, a breakthrough in the form of a large-scale second-cropping remaining constrained by the absence of water during the Rabi season.

In the course of our analysis, by different indicators of enterprise and different size groups and occupation, we have been unable to locate a particular class of so-called progressive farmers or capitalist farmers, who are endowed with all the features of enterprise. Nor could we discern signs of strengthening of so-called semi-feudal relations, despite more than 20 per cent

of land being under leased-in farming. Rather, there are signs of the loosening of such relations. We can now formulate the following hypotheses for deeper testing:

- (i) In the district of Burdwan, farming is still taking place in a framework of traditional modes and methods, wherein the latest technology has entered but not made any significant impact. Large holding size, intense use of fertilisers, use of improved seed varieties — none of these constitute an essential part of the outfit of those who are at present extracting the most out of every given acre.
- (ii) In a predominantly small-farming-cum-tenant farming situation (not merely in terms of percentage of farms but also in percentage of area) and overall scarcity of water (only 5 lakhs of acres out of 12 being irrigated for one season), expansion efforts are reaching saturation point.

Without tackling these constraints, a Green Revolution cannot be wished in. And Burdwan, despite many signs of "progressivism" in a slipshod manner is not even on the threshold of the much-talked of Revolution.

Backdoor Forward Trading

Nishtar

THE stock market no longer wears the anaemic look it has presented for a long while because of the ban on forward trading. It is beginning to pulsate with life and jobbers have reappeared on the scene. The overall trading volume gives one the impression as if forward trading has been allowed to be resumed. The ban has not been lifted but the market authorities in Bombay have considerably relaxed the trading rules. Facilities for settlement of transactions not only in cleared securities but also in select cash counters have brought about a marked increase in turnover. New Delhi cannot be unaware of "illicit" forward trading for which it itself is no less to blame. It is the inordinate delay in lifting the more than 13-month old ban which has forced the market authorities to resort to relaxation of trading rules in order to pacify the stock exchange fraternity which had been getting increasingly restive due to lack of business. There is no reason why Government should not be able to take a decision on an issue like forward trading in shares, especially when it has been in possession of the Anjaria Committee's report for quite some time.

Completely unmindful of the hazards involved in moving on the higher altitudes in an unexplored territory, the stock market has pushed its way further up and it seems determined to carry on with its campaign. Gains recorded during the week have been widespread and quite spectacular in many cases. With floating stocks of shares on the decline due to steady investment support and bears virtually debarred from entering the fray, bulls have had little difficulty in rigging up prices. Of course, last week's corporate news was very helpful. Jiyajeerao Cotton, Poysha Industrial, Kirloskar Pneumatic, Simco Meters, National Insulated Cables, Tata-Merlin, Polychem, International Tractor and Vickers Sperry — to mention some important names — have produced substantially improved results for 1969 and brought cheers to their respective shareholders. Sentiment was also aided by the announcement of cease-fire in West Asia. With the prevailing sentiment over-

whelmingly bullish, even the less popular and hitherto neglected shares have started receiving good attention.

The week's news was not altogether pleasing but there are occasions when the mood of the market counts much more than the news. Finance Minister Chavan's statement that even the non-nationalised banks would be asked to insist on a transfer to their names of the shares pledged with them by the borrowers who had overdrawn more than Rs 50,000 has had no noticeable effect on the general trading sentiment. Is one to interpret this as an indication of the market's approval of Government's policy to discourage the use of bank finance by operators to corner shares and acquire control over well-managed companies? Good, if that be so. But the market has also not felt the least perturbed by the possibility of a wave of strikes in West Bengal and the country-wide land grab movement which threaten to further complicate the already disturbing law and order situation. The fact is that in its present bullish temper the stock market is inclined to make the best of good news and overlook adverse influences.

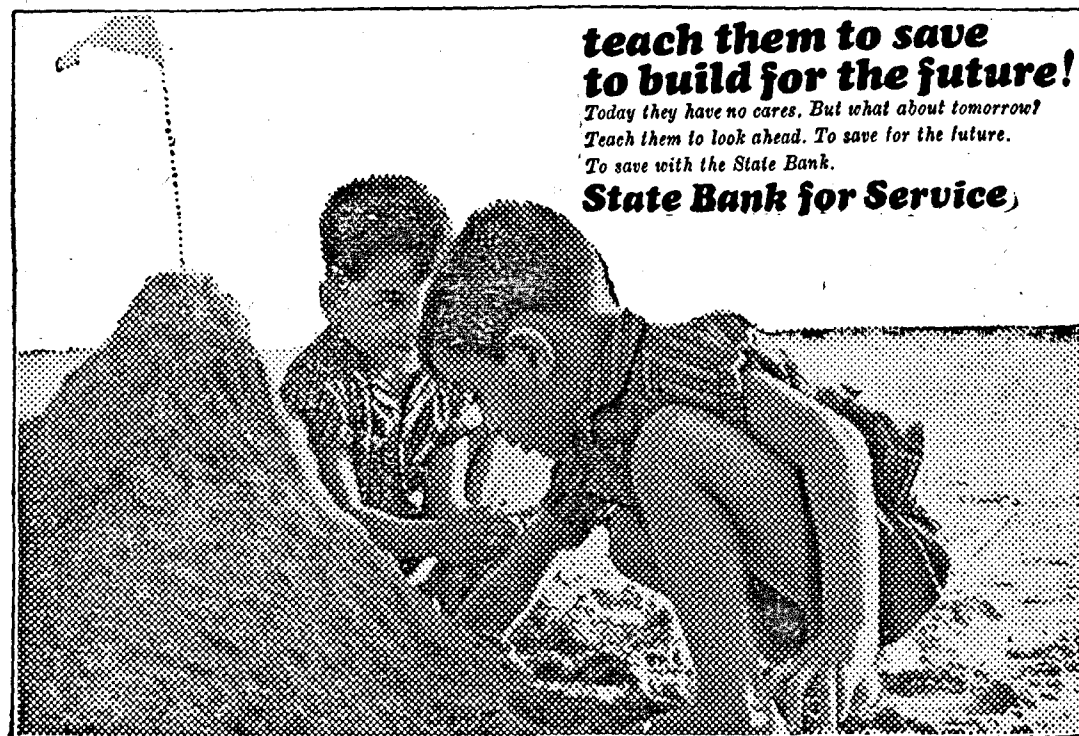
Traders versus Co-operatives

THE cotton trade is set on war path. Activity in cotton markets throughout the country has been brought to an almost complete standstill. The trade has gone on a fortnight's strike which is scheduled to last till August 19 and this is just the beginning of the battle for survival. Madanmohan Ruia, chairman of the All-India Cotton Federation, has explained that the trade had to resort to this "drastic step" as a protest against Government's unhelpful attitude towards its grievances. He says that if Government thinks the trade can be intimidated into submission and that it can go ahead with its plan, it will be sadly disillusioned. Ruia has charged Government with "talking one thing with the trade delegation and putting out different reports through the radio and the press". This is a very serious accusation which calls for a satisfactory answer from the authorities concerned.

Ruia's lieutenant, Manubhai Amersey, has been talking of a "grand alliance" of cotton producers, traders and mills to thwart Government's attempt to take over the cotton trade. He has hinted at the formation of a Bombay Cotton Party on the model of the Boston Tea Party which marked a milestone in the American War of Independence when thousands of chests of tea were dumped into the seas to protest against the British levy. Is Amersey thinking in terms of destroying thousands of bales of cotton? One hopes not. Amersey has gone to the extent of warning Government that the take-over plan might cost it 65 million votes represented by the entire population of traders and the member of their families. If one were to go by the oft-repeated criticism that the take-over plan has been motivated essentially by political considerations, one would think that Government expects to gain rather than lose by the move.

Cotton traders have every right to agitate for redress of their grievances. But the warring attitude that traders have adopted might do more harm than good to their cause. The trade is expecting the impossible if it thinks that Government can be forced to give up the take-over of imports and to wind up the Cotton Corporation. Centralised purchases can be more economical and useful from the point of view of speedy contracting and economical shipments. Of course, much would depend on the people who handle the job. The assurance given by the Union Minister of State for Foreign Trade that Government will take care in appointing the chairman and managing director of the Cotton Corporation to ensure that they were experts in the field and knew the intricacies of the trade is welcome. It is unfortunate that the trade should have carried its war beyond the country's frontiers. How else could the National Cotton Council of America have ventured to send a telegram to Indira Gandhi urging her to reconsider the Government decision and allow cotton import to continue on private trade basis. The Council has even hinted that canalisation of imports might adversely affect US Government's ability to continue to supply cotton under PL 480.

While Government is not contem-



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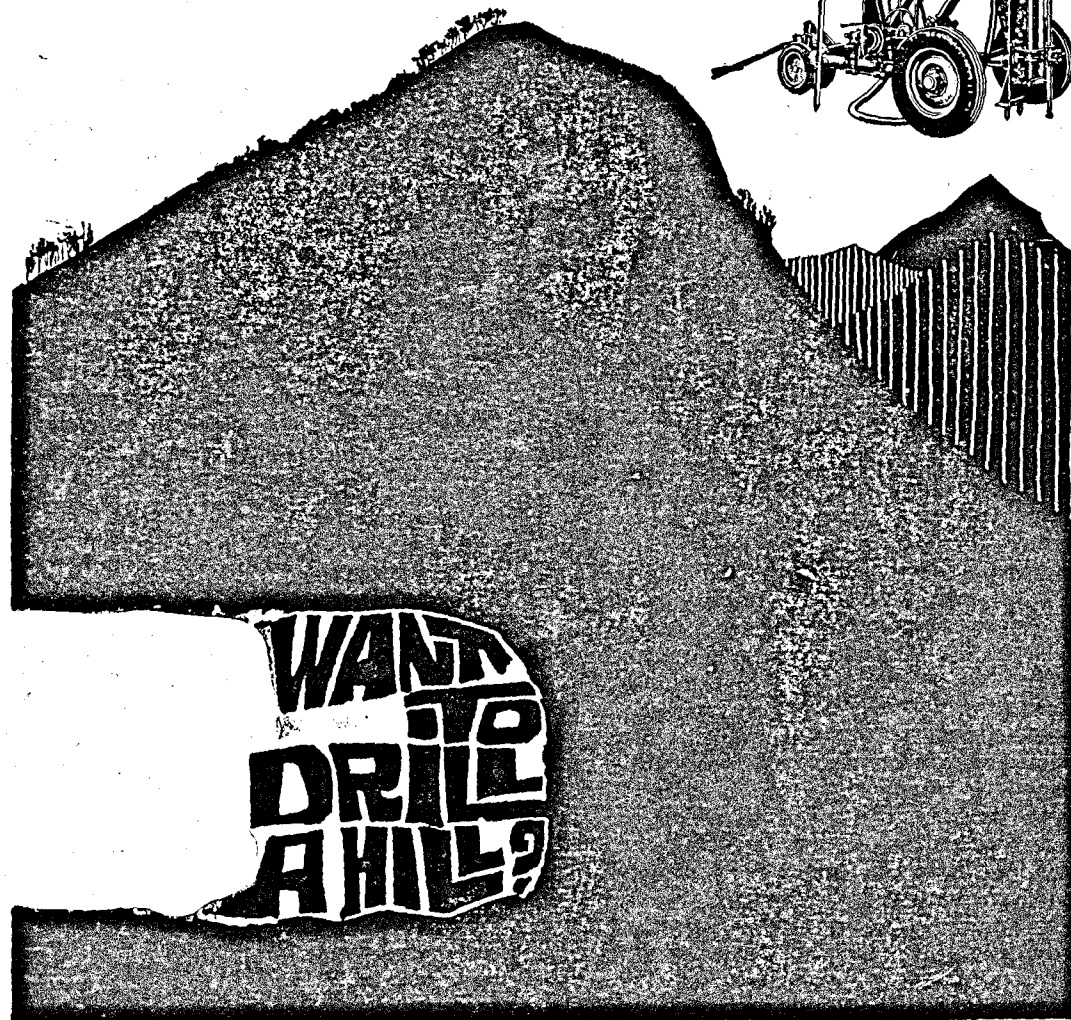
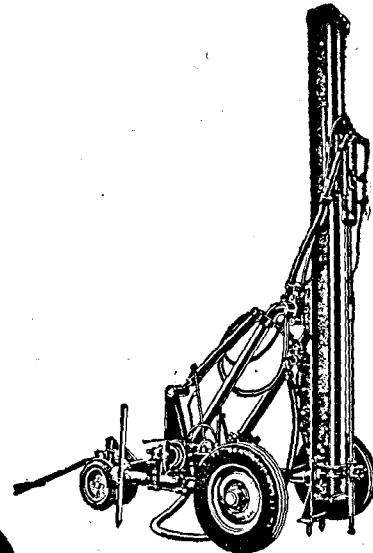
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plating any wholesale take-over of domestic cotton in the near future and private trade will be allowed to carry on its business as usual, the non-co-operative attitude adopted by traders might hasten the take-over of internal trade. Maharashtra's Minister for Co-operation, Mohite, has already informed the Centre that his Government is willing to take over the entire cotton trade in Maharashtra. The State Co-operative Marketing Federation is said to be in a position to handle the entire trade provided the necessary capital was made available to it. The All-India Cotton Federation which has launched the country-wide agitation and is claiming full support of growers and mills needs to be told that the cotton growers' conference held in Bombay on August 11 under the auspices of the Maharashtra State Co-operative Marketing Federation fully endorsed the joint co-operative cotton processing and marketing scheme proposed by Mohite in his white paper. The scheme seeks to regulate the raw cotton trade up to the ginning and pressing stage by introducing monopoly purchase through co-operatives. This should ensure a much better price for his produce to the grower.

Dangerous Game

ON August 8, the spot quotation for groundnut oil in Bombay was marked up to Rs 5,400 (per tonne)—a new high for the season. The rise occurred despite forecasts of a good groundnut crop which could be even better than the 1964-65 record harvest of 58.5 lakh tonnes (in shells) if the last round of rains in September is also satisfactory. But this is not very surprising. The marked strength in groundnut oil reflects essentially the tight supply position which will continue until new crop moves into the market. Current supplies are not sufficient to satisfy increased seasonal off-take. Vanaspathi manufacturers who had been running down their inventories in anticipation of a decline in prices in the wake of good crop prospects have emerged as keen buyers recently. Vanaspathi which had been selling at a discount for some time is again commanding a small premium at some places. An important factor which has contributed to the recent rise in groundnut oil prices is nervous covering by traders who had

gambled heavily on good monsoon and effected sales for nearby delivery far in excess of their holdings.

The rise in groundnut oil prices has imparted strength to the entire market. Sentiment has been aided by sustained demand for linseed oil from paint manufacturers and for castor oil from shippers. Linseed oil and castor oil have kept distinctly steady. Linseed and castor futures have improved upon their previous week's highs though top gains have been pared by corrective profit-taking.

Uncertainty about Government per-

mission for hedge trading in new crop contracts has been set at rest. Trading in cottonseed January has already commenced and business in linseed and castorseed futures is expected to start very soon. As if this was not good enough, traders have on their own decided to deal in groundnut oil futures (October delivery) on a daily cut basis. The trade will have only itself to blame if Government were to take a very serious view of this illegal forward trading in an important commodity like groundnut oil.

COMPANIES**Repercussion of Green Revolution**

Hansavivek

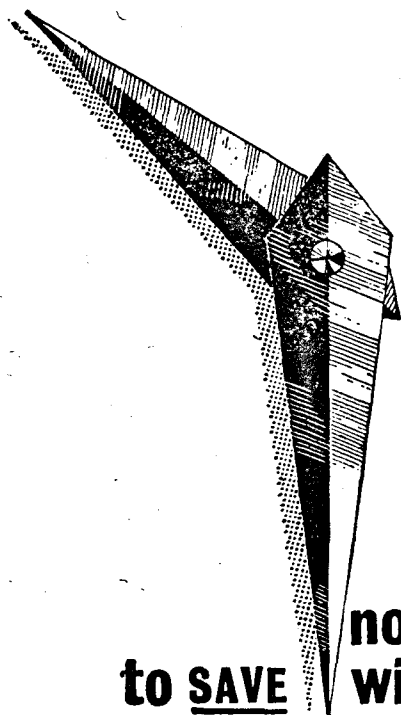
JAGATJIT COTTON complains of acute shortage of labour due to diversion of skilled workmen to the "remunerative" agricultural sector on account of the 'green revolution' in Punjab. To tackle the problem, training schemes have been intensified and re-oriented to meet the requirements of the mill. The company experienced an "illegal" strike and partial working between November 1969 and January 1970, although an agreement was entered into with recognised unions for paying to workmen in advance from January 1969 such increase as would have otherwise fallen due in 1970-71 on the basis of the recommendations of the second wage board award. Certain concessions and incentives in wages were also allowed for the weaving, sizing, warping, winding and speed frame departments. In spite of this, the directors point out, the atmosphere remained "surcharged with violence" owing to the "undesirable activities" of one union.

During the year to January 1970, the mill produced 54.99 lakh kg of yarn and 323.95 lakh metres of cloth against 59.33 lakh kg and 373.91 lakh metres, respectively, last year. With higher price realisation, however, sales increased from Rs 5.81 crores to Rs 6.03 crores but gross profit decreased from Rs 45 lakhs to Rs 42 lakhs. Net profit was Rs 6 lakhs (Rs 12 lakhs) while the unchanged equity dividend of 5 per cent and the usual distribution on preference capital will together demand a lakh more. Return on total funds employed in business worked to a little over one per cent only. The company continued

to implement its expansion programme. An application has been made to government for 107 looms under the second marginal scheme.

RAMPUR DISTILLERY AND CHEMICAL had reappointed its managing agents, Govan Brothers (Rampur) for 5 years from August 15, 1965. But Company Law Board approved the reappointment first up to March 31, 1966 and then till March 31, 1967 and turned down requests for further extensions. The company took the matter to court. The Supreme Court directed CLB to consider afresh the company's request for extension of managing agency's term, but CLB declined to approve extension of the term. Meanwhile, "to see that the working, business and interests of the company did not suffer", the directors "requested" Govan Brothers to carry on the company's affairs as "special officers", which the latter "agreed" to do. In April last, GBR asked the company to decide the question of remuneration for these services. After obtaining legal opinion, the directors have decided to pay Rs 50,000 to Govan Brothers for the services rendered for 3 years. It is stated that had CLB granted approval to the renewal of managing agents' appointment, commission payable for this period would have come to over Rs 85,000. V H Dalmia and Sanjay Dalmia, directors, are interested in payment of this remuneration as their relatives are directors of Govan Brothers.

During the year to March 1970, Rampur's net sales doubled to Rs 62



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(Formerly Clive Ghat Street) CALCUTTA-1.

nsa/UBI-7/68

lakhs and gross profit was up from Rs 4 lakhs to Rs 7 lakhs. Net profit was Rs 82,392 (Rs 67,763) while dividend stepped up 3 points to 8 per cent will require Rs 1,60,000. Return on total funds employed worked out at a bare 1.4 per cent. The distillery produced 16.37 lakh bulk gallons of rectified and other spirits against 8.30 lakh bulk gallons in the previous year, although the plant had to be kept closed for over 2 months due to labour strike in the factory of Synthetics and Chemicals, main buyer of industrial alcohol. Owing to "severe" competition in sales of rum to defence services, supplies made against tenders resulted in a "substantial" loss. It is proposed to produce malt whisky. This new product is expected to be marketed after two years. The company has received 'letters of intent' from the Governments of Madhya Pradesh and Andhra for setting up brewery plants in their States.

CALCUTTA STEEL complains that billets are being diverted to the finishing mills of the main plants at the expense of the rerolling industry and that supplies to the latter have shrunk from 9,22,000 tonnes in 1966-67 to 6,37,000 tonnes in 1969-70. The company's plant had to be closed, fully or partially for 60 days in the year ended March last due to short supply of billets, and production of finished materials dropped to 30,660 tonnes from 41,641 tonnes in the previous year. Allocation of billets relating to exports of rods and bars has been slashed from 25,000 tonnes to 9,000 tonnes per-month. During 1969-70, the company's gross profit advanced from Rs 9 lakhs to Rs 19 lakhs, even though sales shrank from Rs 5.41 crores to Rs 3.69 crores. Net profit was Rs 5 lakhs (Rs 1 lakh) which was just enough to cover the 5 per cent distribution and to give a meagre return of 2.7 per cent on the total funds employed. Commenting on the current year's prospects, the directors say that the "good" prices obtaining for finished steel, both in the home and export markets, would soften to some extent the effect of the cut in the company's quota of billets.

STRAW PRODUCTS has undertaken an expansion programme to raise installed capacity for production of MG and MF fine tissue and other speciality papers by 10,000 tonnes per annum. Order for the plant has been placed with a West German firm and for the indigenous portion with Utkal Machinery. MF and rag plants are expected to be in production by mid-1972. Of

the total outlay estimated at Rs 850.50 lakhs, Rs 236.50 lakhs will come from internal resources, Rs 556.50 lakhs from financial institutions by way of loans and the balance Rs 57.50 lakhs is proposed to be raised through additional capital issue. After expansion, the company will be producing some of the "finest" speciality papers which are so far imported. During 1969, the company's output of paper and paper board increased from 18,577 tonnes to 19,598

tonnes and of boards from 12,984 tonnes to 13,623 tonnes. Sales were up from Rs 6.20 crores to Rs 7.21 crores and gross profit from Rs 1.24 crores to Rs 1.66 crores. Net profit was down at Rs 68 lakhs (Rs 81 lakhs) because of incidence of taxation which took away Rs 52 lakhs against nil last year. The 12 per cent equity distribution was covered 2.6 times and the net return on the total funds employed in business came to 8.8 per cent.

FROM THE CHAIR

The South Madras Electric Supply Corporation Limited

Regd. Office : Power House, Tennur, Tiruchirapalli-17.

Excerpts from the Speech delivered by Thiru K A P Visvanatham, Chairman of the Company, at the Thirtieth Annual General Meeting of the Company held on 10th August 1970

LADIES AND GENTLEMEN:

I have pleasure in extending to you a warm welcome to this 30th Annual General Meeting of the Company.

The results of working of the Company during the year ended with 31-3-1970 have been reported to you in detail by the Directors in their report. With a capital investment during the year of Rs 33.80 lakhs on urban and rural electrifications and an addition of nearly 4,800 new consumers with a growth of 7.86 per cent in energy sales and 12.67 per cent in gross revenue collections, the operating results of The Trichinopoly-Srirangam Electric Licence should be deemed to be eminently satisfactory. Special emphasis was laid this year on urban improvements, to allow for the rapid load development in the cities of Tiruchi and Srirangam in particular.

As you are aware, last year, in November 1969, the Tamil Nadu Electricity Board, increased our purchase tariff by 30 per cent. Thereby our purchase bill gets increased by nearly Rs 22 lakhs per year. Since our industry is regulated, leaving no surplus revenues, we were compelled to raise all our consumer tariffs by nearly 30 per cent and this has naturally caused hardship to our consumers. Further, in view of the very short tenure of our licence (12-1-1972), we had to look to Government only for finance for expansion. Since our representations to Government for help have not yet been heard, we had

to slow down our capital works and this again has given room to discontent among consumers.

Representations are being made, both by the Company and the consumers, to the Government, on these problems and I sincerely hope our popular Government will come to help, both with respect to tariffs and with finance for extensions. Given the help we are asking, namely a revision of tariff and finances for expansion — I would like to assure the Government of our best endeavour to serve the public.

With regards to the Mayavaram — Mannargudi — Tiruvarur Electric Licence compensation problems, I regret to say that the Government have not yet appointed the Arbitrator.

As regards steps taken by the Board for refund of a portion of the capital out of the Rs 31 lakhs kept in deposit from the Mayavaram-Mannargudi-Tiruvarur Electric Licence compensation amounts received so far, the Directors' Report has indicated to you the steps that have been instituted.

I would like to take this opportunity to express my personal appreciation and that of my colleagues on the Board of the good work that is being done by the officers and staff and workers of this Company.

Note: This does not purport to be a report of the Proceedings of the Annual General Meeting of the Company.



India Tobacco Company Limited

Speech by the Chairman, Mr A N Haksar

THE following is the Speech by the Chairman, Mr A N Haksar, at the Fifty-ninth Annual General Meeting of the Company held on August 6, 1970:

INTRODUCTION — INDIAN SHAREHOLDERS — REVIEW

I have great pleasure in welcoming you to the 59th Annual General Meeting of your Company and the first under its new name INDIA TOBACCO COMPANY LIMITED. I must also welcome our new shareholders at this the first AGM since the public issue in January this year. India Tobacco Company now has over 20,000 Indian shareholders whose an original cash investment of around 6 crores of rupees represent a larger Indian public commitment than in any other Company in the industry. Your Board are keenly aware of the responsibility they bear to justify the confidence of those who have invested in the future of this Company.

Your Company completes sixty years of operation this year and 1970 is a landmark in its history. You can be proud of your Company's past achievements, and the change of name coming, as it does in this diamond jubilee year, is perhaps the culmination of a continuing commitment — an outward and visible sign of the many changes which have already taken place towards integration of the Company with the country in which it operates. The stake of the Indian shareholder has thus been raised in the equity and further steps in this direction will be taken as additional finance is required. This is not to deny the Company's obligations to its overseas shareholders who have extended their support from the inception of the Company towards identifying its own progress with the welfare of India.

A review of the year's trading has been included in the Report of the Directors. I am sure you will agree with me that the results have been most

satisfactory and barring unforeseen circumstances your Board feel confident that the progress will be maintained. I would, however, like to highlight three significant achievements of your Company in the year under review.

- 1 At the World Selection for tobacco and tobacco made products held at Brussels in November 1969, four ITC brands of cigarettes received Awards. INDIA KINGS won a Gold Medal for the second time, the first being in 1967. WINDSOR and SIMLA won Silver Medals and LEX a Bronze Medal. These World Awards are a tribute to the quality and excellence of your Company's products. They reflect your Company's belief that the consumer always comes first, must always be satisfied and be given the very best value for his money.
- 2 In the export field, your Company's sister concern leaf suppliers, Indian Leaf Tobacco Development Co received in November 1969 the Government of India Certificate of Merit for Outstanding Export Performance of around Rs 15 crores in 18 months between October 1966 and March 1968.
- 3 In the domestic market, in keeping with the market trend for filter tipped cigarettes and to meet the needs of the public, BRISTOL Filter Tipped was introduced at the beginning of the year under review, it found ready acceptance with consumers and is already the highest selling filter cigarette of its kind in its price class.

PROFESSIONAL MANAGEMENT — CONCEPTS — INGREDIENTS

In my talk last year I reviewed the overall operations and contributions of your Company. This year I would like to talk about your Company's Management. This does not mean that we are unmindful of the contributions of our

employees who are not Management members. Your Board believe that the most important resource in any enterprise are the people that work in it, and I would like to acknowledge our appreciation of the work and effort put in by each and everyone of our employees. I wish, however, to elaborate on the subject of Management this year.

The tradition of Professional Management which your Company has inherited from its overseas investors, is, perhaps, its most significant characteristic. The main ingredients of this Professional Management are fourfold:

- 1 FIRST the divorcing of ownership from control.
- 2 SECOND the way in which a commercial enterprise is viewed in its purposes, objectives and responsibilities and the values that are applied in the conduct of its affairs.
- 3 THIRD the attitudes and beliefs of Professional Management that guide their thinking in the utilisation of resources.
- 4 FOURTH the application and expertise to the business of "Managing".

PROFESSIONAL MANAGEMENT — CONTROL — BOARD RESPONSIBILITIES

The first of these, the divorcing of ownership from control, can be regarded as the crucial concept which distinguishes Professional Management and has in it the inherent approach of a Trust. Ever since the idea of the joint stock company evolved, the trend has been towards divorcing ownership from control. The feature of the joint stock company has been increasing large scale production which results from judicious combination of innovation and technological progress. And if the sheer size of modern enterprise had not ousted the owner-manager, the need for public investment to finance growth has meant that shareholder

ECONOMIC AND POLITICAL WEEKLY

have found it convenient for obvious reasons to delegate the job of controlling the enterprise to a Board of Directors appointed by them. The effect has been corporate autonomy — the legal responsibility for running the Company is borne by the Board of Directors in whom all the powers of management are invested.

ITC is a Company in which the public is substantially interested and ownership is divorced from control. All your Directors are full-time executives and have had many years of service with the Company or its Associates: none of them has a proprietary interest in the Company.

The Board, composed of Professional Managers, functioning as a team is collectively responsible for periodically and regularly:

- 1 Studying the environment in all its aspects.
- 2 Analysing the Company's strengths, weaknesses, opportunities and threats.
- 3 Arriving at assumptions that are necessary in terms of those influences that will effect the future of the Company.
- 4 Defining what the business of the Company is and should be, and what the purpose of the business are.
- 5 Framing policies within which Management will function and which will also aid the objectives of the country in which the Company operates.
- 6 Identifying the really important business areas and then setting Company objectives.
- 7 Ensuring a Company Plan (short and long term) to achieve the objectives set in a planned fashion.
- 8 Reviewing the performance of the planned operations against the pre-determined results to be achieved and controlling and taking corrective action as necessary.

In addition to this collective responsibility, the Board of Directors, as Professional Managers, and recognising the increasing complexity of operations, assign specific responsibilities among its members. Consequently proper time and attention is given to the various aspects of the Company's business for which the individual Directors, all of whom are full-time executives, are accountable to the Board as a whole.

Your Company is constantly evolving in a changing world. Such change has

to be properly managed. It had become clear that among the important matters requiring particular attention of Management are corporate planning, organisational and management development, technical training, research and very specifically, exports. Active steps have been and are being taken on these matters. These activities provide the background explaining the changes that were made in your Board of Directors.

PROFESSIONAL MANAGEMENT — PURPOSES — OBJECTIVES — RESPONSIBILITIES OF ENTERPRISE

I would now like to turn to how professional management views Company's purposes, objectives and responsibilities. Your Board, as mentioned earlier, is composed of Professional Managers none of whom has any proprietary interest in the Company. I must, therefore, in the first instance, disabuse you of any idea that the profit-motive is the only central inspiration of your Board of Directors. We are concerned with profits (in the short and the long term) as the true measure of our performance — that we have maintained the organisation in sound financial condition and have obtained for the shareholders a proper return on their investment representing a fair reward for the contribution made. But we are also concerned with the well being of the organisation in its totality as "Industry is an organ of society specifically charged with the responsibility of organised economic advance through making resources productive. It expresses the basic belief of modern society that economic progress can be made into a powerful driving force for human betterment and social justice".

As Professional Managers of your Company we thus see the purposes and responsibilities of the Company covering a wide spectrum which in themselves also serve the interests of the investing public.

- 1 We are concerned with the satisfaction of our immediate customers — that we have provided the trade with every assistance, good service and profits thus encouraging the development of smaller businesses and independent entrepreneurs who need to receive returns in keeping with their contribution.
- 2 We are concerned with our ultimate customers — the millions of consumers — who are paramount, who are the final judges of the

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quality of the Company's products who must be given what they want, must be continually satisfied and must be provided the very best value for their money.

- 3 We are concerned with the well being of our employees — the most important asset of the Company — that we have provided them with good working conditions, a fair reward for a job well done and the environment to do it in, as well as the opportunities for advancement.
- 4 We are concerned with our competitors whom we wish well — that each member of the industry functions in a spirit of healthy competition for the good of the consumer; each relying on the quality and consumer preference of its products and the productive utilisation of its resources.
- 5 We are concerned with our relations with the hundreds and thousands of the Company's suppliers — that we have dealt fairly with them and they with us in a spirit of mutual confidence based on mutual assistance.
- 6 We are deeply concerned about our shareholders, with the dividends and share prices — that we shall be able to maintain the momentum of corporate progress by obtaining our future commercial requirements from the general public who represent the capital market.
- 7 We are concerned with the public good — that we have and are contributing to the economy and the aspirations of the Government, and that we have not only at all times fully complied with all the requirements of the law in every phase of our operations but have also been fully conscious of our social responsibilities to the society of which we are a part.

All these concerns give rise to various and often conflicting obligations which are by no means resolved by being subject in many areas to legislation and Government control. Thus in the socio-economic scene, ownership divorced from control, makes for a virtue of professional management, and your Board can, in an objective manner, successfully resolve the conflicting claims on the Company. Your Board accept the responsibility of working in the overall interest for the well being of the Company and believe that, in doing so, it can and does establish an

identity between national aspirations and its own objectives.

PROFESSIONAL MANAGEMENT —
ATTITUDES AND BELIEFS —
PRODUCTIVE RESOURCE UTILISATION

I now come to the attitudes and beliefs of professional management relating to the productive utilisation of your Company's resources. Professional Managers are result rather than resource orientated and use various resources for the specific purpose of achieving certain results but have discretion in the manner in which these are handled and used. Consequently the Professional Manager has developed a scientific approach for the fair and productive use of resources. Broadly speaking these can be divided between human and physical and of these the former are by far the most important.

Insofar as people are concerned, the social sciences have advanced rapidly in the post-War period and much has been revealed to men of industry. In simple terms, the fundamental belief of professional management is that human beings want to work, seek responsibility, expect to know what they are responsible for and what is expected of them; and, having participated in establishing the results they should achieve, like to be treated as mature, trustworthy people capable of directing and controlling themselves and then agree willingly to be held accountable for their performance, to be measured and assessed objectively.

Your Company's management also believe that, while satisfaction with working conditions and remuneration is important, the motivated and creative input of people is brought about largely by providing satisfaction in the job, a challenge to their ability and opportunity for achievement followed by fair recognition as a reward. That job satisfaction is aided by individuals seeing their part in the whole and identifying their own objectives and growth with those of the Company and its progress. Furthermore, that in recognition of the complexity of activities and through their interaction, people have to work together, as the performance of the team is greater than the sum total performance of its individual parts.

These then are the simple beliefs surrounding the professional management of your Company — beliefs they are continually attempting to practise. These beliefs may not always be easy to implement but are certainly worthy of emulation.

Turning now to the physical resources, the concern of your Company's managers is to avoid waste and to achieve the maximum productivity consistent with quality and consumer satisfaction in the utilisation of every single resource. To be truly professional in their approach they encourage and use the many tools of management, techniques and procedures that have become available, and are being constantly evolved, derived from the various disciplines of knowledge.

These various management systems, services and tools can be assessed for their usefulness to the Company, can and are being taught, and can be used by those trained in these disciplines. These aids enable proper identification of the problem, reduce the area of the unknown, analyse alternative courses of action and resource utilisation, measure and compare probable results and, therefore, make possible better decisions for more productive utilisation of resources, and such decisions are that much more professional because of their objectivity and scientific orientation.

It is not my intention to go into the details of these techniques. However, I do wish to emphasise that these are teachable systems that are used by the Professional Managers of today. Your Company has trained personnel who are applying many of these disciplines and there are yet others which are being regularly evolved and will receive your Company's attention.

PROFESSIONAL MANAGEMENT AND THE
PROFESSIONAL MANAGER — DEVELOPMENT
AND APPLICATION OF EXPERTISE

I would now like to conclude my comments on the subject of professional management with a few remarks on the development and application of expertise. The term Professional Manager is appropriate in the sense that management is a science, and, the manager can use the knowledge of this science to define and achieve economic results whereby your Company is made effective. The work of a manager includes economic, social and other tasks which are knowledge based; they can be systematically analysed, taught, learnt and developed.

Your Company can only be successful if it is well managed. It is important therefore, that management should be properly equipped to discharge their responsibilities with a high degree of excellence, both in terms of having the basic qualifications and knowledge for

their job and of keeping up with the latest developments and techniques. In essence, this is the area of professional management which is concerned with Organisational and Management Development. It covers recruitment/selection, induction, training, development and continuous assessment of Managers towards increasing their effectiveness in terms of performance and results.

A system of management man-power forecasting is used by your Company so that under a planned and orderly recruitment programme suitably qualified applicants are available to go through a proper selection procedure to fill vacancies in accordance with the needs of the organisation. Arrangements have been made with various Institutes of Management and Technology for campus interviews of possible applicants. Contact has also been established with Placement Officers in various technical colleges in the United Kingdom which now award University degrees as also those at Oxford, Cambridge and London Universities and the London School of Economics. In the USA similar arrangements are being made with MIT and the Harvard School of Business Administration. Thus, the recruitment net is spread as wide as possible and covers not only those in this country but also our Indian students abroad. At the same time internal procedures ensure that suitable candidates from within the ranks of the Company are assessed and given the opportunity to aspire and rise to positions of managerial responsibility.

The selection procedures are rigorous and sophisticated and are being constantly improved upon. Selection is done against a definition of the job and the results to be achieved by the Manager with an outline of how it is to be performed and the levels of knowledge, skills and qualifications that will be required. Applicants are first screened by operating units, after which they pass through painstaking individual and group tests, as well as systematic interviews by Selection Boards which consist of senior Managers of the Company. Finally, the Line and Personnel Directors interview the best candidates. The aim is that selection procedures are objective, systematic and bias free. After selection, the new entrants go through a process of induction and start on a systematic training programme which normally lasts two years before they become members of Management and start making a positive contribution.

In broad terms the career of the Professional Manager in your Company

starts with being a specialist, goes on to being what might be termed an Industry professional and finally developing into a General Manager. At each level and throughout these processes of development, not only is training imparted on the job but also formal training is imparted in courses, seminars and project exercises making use of facilities inside the organisation such as the Company's residential training centre in Calcutta as well as the many facilities available in Management Institutes, both in the country and abroad. Throughout this period there is a system for regular assessment based largely on performance in which training needs are regularly established and from which Managers are selected, strictly on merit, for further development and promotion to positions of higher responsibility.

Management training and development has long been recognised as a vital necessity in the operations of your Company and is the key in the furtherance of professional management. Currently a system known as Management by Objectives is being fully ex-

amined in its totality with a view to promoting even greater self-development of Managers which it is hoped will prove all the more effective through being integrated with the total concept of corporate planning.

I have emphasised the importance of training and development as a means of acquiring and imparting expertise to Management. I would like to mention the importance which your Board attach to the training of the unionised cadres. For sometime now training programmes in this area have been carried out in all the Company's branches with two objectives — firstly to increase the efficiency of operations and secondly to improve the supervisory and leadership skills of the higher echelons in these cadres resulting ultimately in their own betterment.

This year a Technical Training Centre has been established in Bangalore with the intention of intensifying the technical content of training and concentrating on the training of trainers and imparting skills to key factory floor personnel. All these measures are designed to improve productivity which

can result in greater benefits to the workers. But productivity does not only depend on proper output by workers or for that matter an efficient utilisation of machines or use of good materials; it depends upon a complex of factors at the back of which is professional management.

CONCLUSION

Finally, as to the future of your Company, I would like to conclude with the same remark I used last year. It is my earnest hope that in facing up to the new diverse challenges, your Company will play its due role and discharge its social responsibilities with vision and dignity in keeping with its philosophy of commitment to India's welfare and to her all-round development. Since the future prosperity of your Company will follow the prosperity of India, your Board look forward to the future with confidence and optimism.

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

The Oriental Fire and General Insurance Company Limited

Speech of the Chairman, Shri T A Pai

THE following is the Speech of the Chairman, Shri T A Pai, on the Report and Accounts for 1969 at the Twenty-second Annual General Meeting of the Company:

GENTLEMEN,

I have great pleasure in welcoming you all to the Twenty-second Annual General Meeting of the Company. The report, Accounts and Balance Sheet for the year ended 31st December, 1969 are already in your hands and with your permission I propose to take them as read.

(2) I mention with regret the passing away of Shri G Venugopal on 9th December, 1969. The late Shri G Venugopal was associated with the Company since 1951 in various capacities and lastly as its General Manager from September, 1965. During the course of his association with the company he rendered invaluable service to the company.

(3) Coming to the results of the year's working, the net premium of the Company has gone up by Rs 127.12 lakhs from Rs 1034.50 lakhs in 1968 to Rs 1161.62 lakhs in 1969. As a result, departmental reserves have gone up by Rs 74.04 lakhs from Rs 604.80 lakhs in 1968 to Rs 678.84 lakhs in 1969. After making provision for taxation to the extent of Rs 45 lakhs and after taking into account the balance of Rs 7,209 from the last year's account and also the release of provision of income-tax to the extent of Rs 19,90,919 in respect of earlier years, there is a surplus of Rs 91.49 lakhs out of which Rs 63.99 lakhs have been transferred to General Reserve, Rs 22.00 lakhs to Dividend Reserve and Rs 5.50 lakhs to Dividend Equalisation Reserve.

(4) The overall ratio of net claims to net premiums has shown slight increase from 56.39 per cent in 1968 to 58.67 per cent in 1969. It is mainly due to adverse experience in Miscellaneous

Department. The overall ratio of expenses of management and commission to net premium is 33.40 per cent in 1969 as against 37.87 per cent in 1968.

(5) Our investments as at 31st December, 1969 aggregated to Rs 1035.24 lakhs as against Rs 853.07 lakhs on 31st December, 1968.

(6) Your Directors have recommended dividend at the rate of 20 per cent (Subject to deduction of tax at the prescribed rates).

(7) In conclusion, I take this opportunity to express my thanks to our clients and well-wishers both in India and abroad who have continued to extend us their support. I also thank all Officers and other members of the staff for their sincere and loyal work.

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

ECONOMIC INDICATORS

This feature will appear roughly once a month and will seek to present latest available statistics on different aspects of the economy.

<i>Index of Wholesale Prices 1961-62=100</i>	<i>Latest Week (18.7.70)</i>	<i>Week Ago (11.7.70)</i>	<i>Month Ago (20.6.70)</i>	<i>Year Ago (19.7.69)</i>	<i>1969-70*</i>	<i>1968-69*</i>	<i>1967-68*</i>	<i>1966-67*</i>
All commodities	180.6	180.8	180.8	174.5	175.4	165.1	160.3	158.9
Food articles	205.9	205.8	205.3	203.3	199.3	186.5	194.3	187.9
Foodgrains	211.8	212.6	213.8	214.5	213.0	192.9	206.7	207.7
Edible oils	236.3	236.0	234.8	217.3	220.0	184.0	144.0	206.0
Industrial raw materials	197.2	199.3	200.9	190.3	185.9	171.6	141.4	165.6
Fibres	171.9	172.1	174.1	166.9	161.0	160.0	127.0	129.0
Oilseeds	235.9	240.6	242.3	222.6	218.0	186.0	149.0	209.0
Chemicals	184.5	184.5	184.5	176.3	188.0	177.2	161.8	150.9
Machinery and transport equipment	145.9	145.3	145.2	134.1	140.1	133.2	132.1	130.2
Manufactures	151.5	151.4	151.5	140.5	148.9	138.8	130.3	130.3
Intermediate products	174.5	174.4	175.3	154.9	174.1	149.2	143.9	148.4
Finished products	146.0	145.8	145.7	137.0	142.8	136.2	127.0	125.9
Textiles	145.1	144.9	144.6	133.9	141.0	135.0	123.0	123.0

* Last week of March

<i>Consumer Price Index : Industrial Workers 1950=100</i>	<i>Latest Month (May 70)</i>	<i>Month Ago (April 70)</i>	<i>Year Ago (May 69)</i>	<i>1969-70*</i>	<i>1968-69*</i>
All-India	183	181	173	177	174
Ahmedabad	176	174	166	169	165
Bombay	180	179	173	175	167
Calcutta	177	173	166	172	170
Delhi	191	190	179	185	178
Hyderabad	185	183	183	185	173

* Average of months

<i>Consumer Price Index : Urban Non-manual Employees 1969=100</i>	<i>Latest Month (April 70)</i>	<i>Month Ago (Mar 70)</i>	<i>Year Ago (April 69)</i>	<i>1969-70*</i>	<i>1968-69*</i>	<i>1967-68*</i>	<i>1966-67*</i>
All India	170	170	162	167	161	159	146
Bombay	166	164	158	162	156	153	142
Delhi	172	172	164	168	162	154	142
Calcutta	165	164	155	162	156	152	139
Madras	165	164	156	161	154	154	147
Hyderabad	169	168	163	167	159	155	147
Ahmedabad	169	170	164	168	162	160	146
Chandigarh	177	174	169	171	164	155	143

* Average of months

<i>Reserve Bank of India</i>		<i>Latest Week (31.7.70)</i>	<i>Week Ago (24.7.70)</i>	<i>Month Ago (3.7.70)</i>	<i>Year Ago (1.8.69)</i>	<i>1969-70*</i>	<i>1968-69*</i>	<i>1967-68*</i>	<i>1966-67*</i>
Notes in circulation	Rs crores	3905	3935	4048	3527	3843	3497	3194	3020
Government of India rupee securities	"	3313	3328	3458	3123	3287	3061	2880	2685
Loans and advances to									
(i) State Governments	"	87	87	87	43	212	152	120	71
(ii) Scheduled commercial banks	"	220	228	291	81	238	106	104	140
(iii) State co-operative banks	"	255	244	243	232	276	247	198	171
<i>Scheduled Commercial Banks</i>									
Aggregate deposits	"	5358	5361	5265	4666	5025	4338	3856	3426
Bank credit	"	4191	4203	4229	3516	3975	3396	3033	2694
Investment in Government securities	"	1260	1227	1189	1207	1168	1055	967	893
Credit-deposit ratio	Per cent	78.21	78.40	80.32	75.36	79.10	78.29	78.66	78.63
Investment-deposit ratio	"	23.51	22.88	22.58	25.86	22.96	24.32	25.08	26.06
Inter-bank call money rate	"	4.50	4.70	6.42	3.37	4.30	3.75	4.95	5.16

* As on last Friday of March

		<i>Latest Month (May 70)</i>	<i>Month Ago (Apr 70)</i>	<i>Year Ago (May 69)</i>	<i>1969-70*</i>	<i>1968-69*</i>	<i>1967-68*</i>	<i>1966-67*</i>
<i>Money Supply with Public</i>	Rs crores	6580	6600	5924	6379	5779	5350	4950
Currency	"	4183	4132	3787	4006	3682	3376	3197
Deposit money	"	2397	2467	2137	2373	2097	1974	1753
Net Bank Credit to Government	"	4820	4836	4697	4726	4709	4253	4027
Net Bank Credit to Private Sector	"	1853	1796	1541	1795	1503	1453	1256

* Last Friday of March

<i>Foreign Trade</i>		<i>Latest Month (May 70)</i>	<i>Month Ago (Apr 70)</i>	<i>Year Ago (May 69)</i>	<i>1969-70</i>	<i>1968-69</i>	<i>1967-68</i>	<i>1966-67*</i>
Imports	Rs crores	127.63	142.59	125.90	1567.49	1910.20	1986.38	1704.32
Exports	"	119.11	127.97	110.09	1410.01	1357.78	1198.69	967.44
Balance of trade	"	-8.52	-14.62	-15.81	-157.48	-552.42	-787.69	-736.98

* The rupee was devalued on June 6, 1966. Figures relate to the period June 1966 to March 1967.

		<i>Latest Month (May 70)</i>	<i>Month Ago (Apr 70)</i>	<i>Year Ago (May 69)</i>	<i>1969-70*</i>	<i>1968-69*</i>	<i>1967-68*</i>	<i>1966-67*</i>
<i>Foreign Exchange Reserves</i>	Rs crores	845.33	821.18	640.43	821.06	576.70	538.55	478.44

* As on last Friday of March

Index of Industrial Production 1960=100	Jan 70	Dec 69	Nov 69	Oct 69	Sept 69	Aug 69	Jan 69	1968	1967	1966	1965
General index	187.1	187.2	171.4	171.1	171.8	169.6	177.2	161.1	151.4	152.4	153.7
Basic industries*	228.9	231.2	215.3	215.4	207.1	207.4	216.7	194.6	176.5	172.9	164.3
Capital goods industries*	225.2	224.9	213.0	204.8	216.2	218.4	228.3	211.0	205.3	210.1	244.2
Intermediate goods industries*	173.6	167.3	151.4	150.9	163.2	150.4	155.4	148.2	139.7	136.7	140.1
Consumer goods industries*	156.4	159.5	142.7	144.7	140.0	142.1	145.4	131.9	125.7	131.3	127.5

* Derived by Reserve Bank of India.

Railway Wagons Loaded		Latest Month (May 70)	Month Ago (Apr 70)	Year Ago (May 69)	1969-70	1968-69	1967-68	1966-67
Broad gauge	'000 wagons	719	734	741	8829	8557	8271	8226
Metre gauge	"	310	340	323	3869	3692	3662	3770

Agricultural Production		1969-70	1968-69	1967-68	1966-67	1965-66	1964-65	1963-64	1962-63	1961-62
Foodgrains	Mn tonnes	100.00	94.01 (158)	95.05 (159)	74.23 (124)	72.03 (121)	89.36 (151)	80.64 (137)	80.15 (134)	82.71 (140)
Rice	"	42.00	39.76 (157)	37.61 (149)	30.44 (121)	30.66 (122)	39.31 (156)	37.00 (147)	33.22 (133)	35.66 (142)
Wheat	"	20.00	18.65 (259)	16.54 (245)	11.39 (169)	10.42 (154)	12.26 (182)	9.85 (146)	10.78 (160)	12.07 (179)
Other cereals	"	28.00*	25.18 (132)	28.80 (153)	24.05 (127)	21.15 (112)	25.37 (134)	23.72 (125)	24.62 (130)	23.22 (124)
Pulses	"	10.00*	10.42 (102)	12.10 (124)	8.35 (85)	9.80 (98)	12.42 (126)	10.07 (103)	11.53 (118)	11.76 (122)
Non-Foodgrains										
Groundnut	"	5.10	6.93 (136)	8.30 (174)	6.43 (134)	6.35 (128)	8.56 (182)	7.13 (156)	7.39 (149)	7.28 (148)
Sugarcane	"		12.00 (194)	9.79 (158)	9.50 (153)	12.10 (195)	12.49 (201)	10.52 (173)	9.29 (153)	10.56 (174)
Cotton	Mn bales of 180 kgs each	6.10*	5.27 (203)	5.45 (210)	4.97 (192)	4.76 (184)	5.68 (219)	5.43 (209)	5.23 (200)	4.58 (175)
Jute	"	6.80†	3.05 (93)	6.32 (191)	5.36 (163)	4.47 (136)	6.01 (184)	6.08 (184)	5.44 (184)	6.36 (165)

Note: Figures in brackets are index numbers with 1949-50 = 100. * Unofficial estimate. † Including mesta.

		1968-69	1967-68	1966-67	1965-66	1964-65	1963-64	1962-63	1961-62	1960-61
National Income	Rs crores	16830	16525	15173	15045	15945	14889	14067	13795	13308
Index	1960-61=100	126.5	124.2	114.0	113.1	119.8	111.9	105.7	103.7	100.0
Per Capita Income	Rupees	319.3	321.3	302.4	307.3	333.6	319.2	308.8	310.7	306.7
Index	1960-61=100	104.1	104.8	98.6	100.2	108.8	104.1	100.7	101.3	100.0

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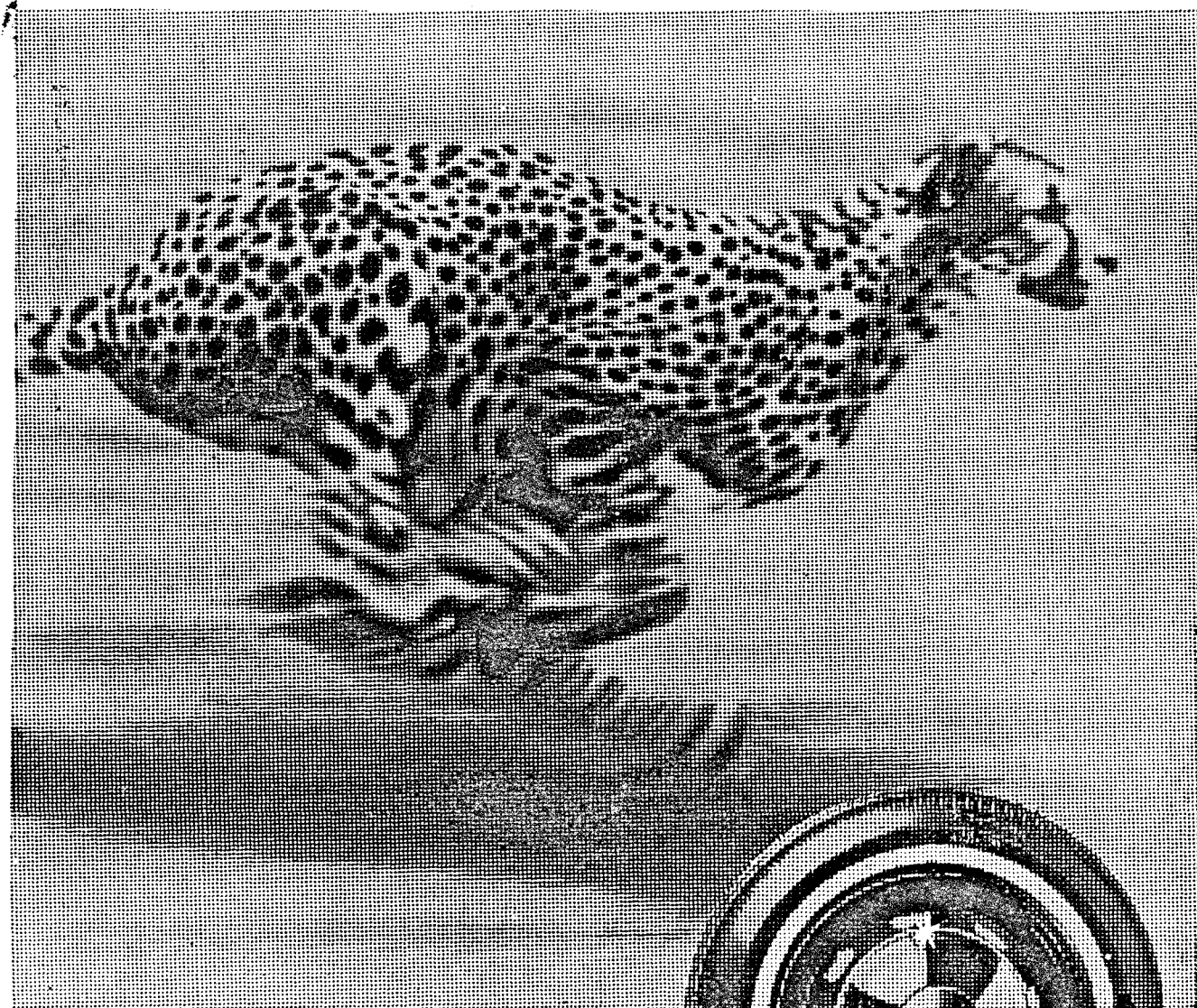
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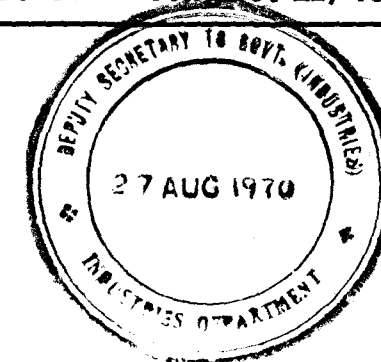
WEEKLY

A Sameeksha Trust Publication

Rs 1.25

Vol V No 34

August 22, 1970



ARMED STRUGGLE IN SOUTHERN AFRICA

SOCIAL BACKGROUND OF LABOUR LEADERS

CASTE IN MOTION

HOUSEHOLD HOLDINGS IN PUNJAB

STRAITJACKET FOR INDUSTRIAL RELATIONS

UNBEATABLE

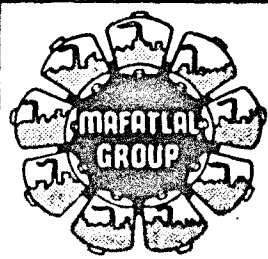


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ECONOMIC AND POLITICAL WEEKLY

Founder-Editor : Sachin Chaudhuri

Vol V No 34 August 22, 1970

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ECONOMIC AND POLITICAL WEEKLY

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Market within Tiny Market

TEXT-BOOKS on Indian economics have long presented the lack of a bill market as a major lacuna in this country's monetary system. The Reserve Bank of India Act of 1935 did enjoin the Bank to create a market in bills of exchange; now, 35 years later, the Bank has prepared a scheme for starting up a bill market from this November. The scheme is based on the report of a Study Group appointed early this year.

The present cash credit system of bank lending, in the Study Group's view, creates uneven demand for bank credit in relation to different banks' resources. Since cash credit does not lead to a negotiable instrument, the unevenness is not automatically removed. Participation arrangements (joint financing by two or more banks) are cumbersome and, therefore, uncommon; nor is the inter-bank call market of much help. If, on the other hand, credit transactions automatically give rise to negotiable instruments which could be traded in, supply of and demand for credit could be evened out among banks. The Study Group recommends, therefore, that banks should encourage clients to sell against bills drawn by them which would be accepted by the purchasers and/or their bankers. To popularise use of bills, the Group suggests discouragement of lending against book debts, if necessary through a Reserve Bank directive. The bills would be eligible for rediscounting with Reserve Bank and are in fact expected to supplant the present fiction of usance bills.

However, there are other implications of the scheme which need to be gone into. There is a danger that, given the bill market, buyers might invariably opt for 90-day (or 120-day) terms for payment. Such tardiness most hurts the small suppliers whom large buyers play one against the other not only on prices but also on credit terms. It might, therefore, become necessary for banks to find out standard trade terms in different markets and insist on the periods of bills not exceeding the normal credit periods.

Where bills are created against goods subject to specified margins, besides evidencing through date of consignment and R/R receipt, banks should operate on the discountable element as the excess above the margin — and only such amount should, if otherwise eligible, be rediscountable with Reserve Bank. The Study Group's suggestion to altogether exclude such bills from rediscounting is perhaps unduly negative. Similarly, the question of banks' terms of access to Reserve Bank according to their net liquidity ratios, referred to by the Group, is less of an obstacle than it thinks, since borrowing against it can be isolated against the final bank which seeks access to Reserve Bank.

Banks, it seems to be assumed, will initially themselves act as acceptors (on behalf of buyers) and as discount houses (on behalf of sellers). The Study Group envisages that in course of time acceptance/discount houses, with their intelligence systems, would come up and suggests the facilities that may be extended to them. The possibility of one or two shells of nationalised banks, now looking for business opportunities with their compensation money, setting up as bill brokers is not to be ruled provided, of course, there is encouragement from Reserve Bank.

Recognising that the concept of putting through credit transactions against bills is new, the Study Group suggests a careful approach with a limited group of first class borrowers to begin with. It also suggests various facilities to encourage resort to the bills, such as their exemption from being treated as clean advances. It is, however, amusing to see the Group already worried about the scheme becoming a wild-fire success and so cautions Reserve Bank of the need "to place limitations on the total acceptances by individual banks".

The major impact of the bill market would be to impart greater perfection to the money market by evening out demand for funds among borrowers and bankers. The Study Group, however, exaggerates the likely benefits from the scheme, particularly in relation to its impact on central banking control. The bills will be only one of the means of commercial bank lending; moreover, to the extent that the demand for funds is met through inter-market transactions without resort to the central bank, central banking control over the market will be in fact reduced. It is difficult to see how "recourse to Reserve Bank...only when the banking system as a whole is short of funds..." enables Reserve Bank to have "more effective control over the money market".

In the broadest sense the limits on central banking control are set by the limited percolation of organised credit into the economy and by the existence of a parallel money market with vastly different rates of interest and terms and mores of lending and borrowing. So long as Reserve Bank remains without effective links with this so-called indigenous or unorganised market, the instruments of monetary control will remain of restricted effectiveness. And yet Reserve Bank often appears determined, through its insistence on the

pristine purity of banking concepts and practices, to widen the cordon sanitaire between its domain and that of the 'untouchables'. To effect the basic reforms needed in the monetary system in this wider context is a task for tough-minded heretics, not clever craftsmen who dust and polish nineteenth century British innovations.

Scaffolding for Policy

ECONOMIC policy has been so far the major casualty in the political infighting in the capital. Does the constitution of the economic co-ordination committee, comprising political heavyweights in the Cabinet, presage a serious effort to reverse this state of affairs? The committee's domain is far-reaching, including not only licensing for large houses but also industrial production and investment, foreign collaboration, price control, raw material supply and so on. On all these matters, important issues are awaiting decision.

Government has already announced a list of 121 industries in which foreign collaboration would be encouraged. Mostly this is a rationalisation and formalisation of existing policy. A FICCI delegation is shortly going to Japan to discuss possibilities of Japanese investment in this country. India's trade with Japan is at present wholly of a colonialist type — with India exporting raw materials (iron ore) and importing manufactures. Japan's foreign investment is largely related to exploiting this country's natural resources, for further processing in Japan. The Japanese are not only hard bargainers but, fully aware of their strength, have not been above imposing their own particular dogmas of free enterprise on others. Government needs to keep these factors more fully in mind in evolving its own policy on acceptable foreign collaboration and investment.

Domestically, the problems are no less complex. An ineffective price policy has led to price-eruptions which Government has sought to suppress by various short-term devices. For railway wagons, Government is exploiting its monopsonist position and refusing to agree to a higher price or even to refer the issue to an independent body — no doubt because of the weakness of its case. The result is loss of production and less employment in the economy. On the other hand, Government has been quick to freeze aluminium prices and refer them to a special working group (ignoring, incidentally, the report

of its own Wanchoo Panel on Prices). Government needs to recognise that the best antidote to a shortage is not price control but increasing production. In iron and steel, besides reimposing distribution control, Government is now working towards a solution to the imbalance between supply of billets and demand from rollers, essentially by reducing the margin between the prices of billets and those of rolled products. One side effect of the proposed increase in billet prices might be to reduce their attractiveness for export and to make for larger exports of steel in rolled form. At the same time, the measure will impose a cost-price squeeze on rollers whose profits were substantial under the old dispensation.

All this, however, needs to be consciously woven into a policy rather than be left to *ad hoc* decision-making on an administrative basis.

Durgapur: No One in Control

A Correspondent writes:

IF the management of Hindustan Steel's Durgapur plant appears to have no clue as to how to tackle its personnel problems, the CPM-led recognised union in the plant appears to be equally helpless in controlling the situation. It is, of course, possible for a union to take the view that keeping up continuous unrest and sectional work-stoppages, small and big, are the best way to obtain a stream of concessions from a management and to maintain its leadership among workers. It may also be possible for some trade union leaders to take the view that their political ends are likely to be best served by not allowing conditions in the industry to settle down. In either case, the resulting labour unrest would be the deliberate choice of the union leadership, and the leadership should be able to control and direct the ebb and flow of such unrest. It is doubtful if the simmering industrial conflict at Durgapur is the result of such a deliberate strategy chalked out by the leaders of the recognised union. More probably, it is the result of the inability of the leaders to guide and control the workers.

Labour-management relations at Durgapur started on the wrong foot from the very beginning when even before the steel plant really got into its strides, the then Government of West Bengal prevailed upon the none-too-reluctant Hindustan Steel authorities to grant recognition to an INTUC-sponsored union without any proper verification of its credentials among the workers. The

workers were never reconciled to this imposition of the INTUC union upon them. But the Union Government as well as most State Governments were equally determined at that time to see that only INTUC unions were recognised at the steel plants as well as at other important public sector industrial projects. Bhilai and Rourkela as well as Durgapur saw considerable industrial conflict as a result of this. Unlike at Bhilai and Rourkela, however, the political climate in West Bengal was not such as to permit the Government and Hindustan Steel to get away with recognition of the INTUC union. In such a situation, sound labour-management relations were out of the question and as soon as the political weight in favour of the INTUC unions was lifted, their recognition was successfully challenged both at Rourkela and Durgapur — an HMS-led union taking over at the former plant and a CP(M) led union at the latter.

The aggressive, militant posture and strategy of the CP(M) union of the pre-recognition days had to give way to a more realistic collective bargaining posture and strategy after recognition. But there was already a group, the Naxalites, striking an even more militant posture, which promptly took the opportunity to brand the recognised CP(M)-led union as collaborationist and launched a campaign of inciting small groups of workers to defy the union. The previous experience of the workers had conditioned them for just such defiance. This explains how on the one hand the recognised union entered into a series of agreements with the management and at the same time small and big work-stoppages in different sections kept occurring with incredible frequency.

The rivalry between the CPI and the CP(M), which ultimately split the AITUC, was bound to have a particularly strident echo at Durgapur. Durgapur was not only an important centre in itself, it was also the only steel plant with an AITUC union in control. Finding CP(M) in firm control of the union, the CPI could hardly leave it in peace, and the union leadership found itself under pressure from its own erstwhile colleagues.

To complicate things further for the recognised union, the INTUC union, smarting under the ignominy of its own ouster by the CP(M), adopted the same strategy that had been used by the latter against it. The plant-level leadership of the CP(M) union evidently has not been able to successfully fight all

these threats to its position from among workers themselves and at the same time do an effective trade union job *vis-à-vis* the management. Such help and guidance as it gets from higher levels of CP(M) leadership is clearly more of a political than trade union nature.

The management at Durgapur does not seem to have ever tried to evolve an adequate industrial relations policy to face squarely, but at the same time fairly, these developments, some of them of its own making. After having granted recognition to a patently non-representative organisation at the outset, it seems to have gone on submitting to sectional pressure from groups of workers and virtually abdicated its task of personnel management. Quite apart from frequent work-stoppages, various other unbelievable instances have been reported, such as some workers being credited with 200 hours of overtime work in a month!

The situation at Durgapur is thus a challenge to both the management as well as the recognised union for the authority of the latter is as much under threat there as that of the former. The strategy of the union to reaffirm its authority appears to be to strike ever more militant postures instead of diligently servicing the trade union interests of the workers. Abdication of its trade union functions will be as fatal to the status of the recognised union as abdication of personnel management functions will be to the management.

The One Per Cent 'Occurrence'

RESERVE BANK waited for the conventional six-month "slack season" to pass its mid-point before crying halt, last week, to further expansion of credit by the banking system. From August 28 the statutory liquidity ratio for banks will be raised by one per cent, thus squeezing the free resources available to banks for expanding credit; simultaneously the minimum net liquidity ratio is also to be similarly raised, making access to Reserve Bank refinancing dearer. The statutory liquidity ratio goes up from 30 to 31 per cent and the assets component of the ratio — comprising mainly investment in Government and other approved securities — from 27 to 28 per cent; the net liquidity ratio — roughly, the ratio of liquid assets minus borrowings to deposits — is to be jacked up from 32 to 33 per cent.

Why did the Reserve Bank decide to tighten the credit screw in the fifth

month of the slack season? One looks in vain for a straight answer to the question in Governor S Jagannathan's letter to bankers announcing the new liquidity requirements. According to the Governor, there "has been a contra-seasonal credit expansion of Rs 170 crores" between April-end and July-end, and, even after allowing for the sizeable increase in food procurement credit, there "has occurred" an increase of over Rs 100 crores in credit to other sectors, though it is recognised that a part at least of this credit has gone to finance sectors "important to the national economy".

Without attempting to explain this strange "occurrence" of contra-seasonal credit expansion, the Governor proceeds to other justifications for the higher liquidity requirements: "There will be a strain on the liquidity of banks in the ensuing busy season if steps are not taken now to accelerate the return-flow of credit — especially from sectors which had shown a large expansion earlier in the busy season." But "large" compared to what? Evidently, compared to past levels and not actual requirements, of which the Reserve Bank has little conception and individual commercial banks even less. And what exactly is the justification for cutting back credit to these sectors, at this stage when the "large expansion" in credit to them were tolerated not only during the busy season but also for the greater part of the slack season?

What emerges fairly clearly from the Governor's letter to banks is that the Reserve Bank has little idea of the contours of the credit bulge and, therefore, naturally not sure when segment of the bulge should be chopped off. Hence the rigmorole on contra-seasonal credit expansion, high prices and impending resources shortage. Hence, too, the reliance on a one per cent adjustment in liquidity when money is not scarce and when the high liquidity requirement cannot hurt very much.

Reserve Bank is, however, keen to assure Government that everything is under control and that resources for Government, promised on behalf of the banking system, would be forthcoming according to schedule. There are some doubts on the latter score, though. A one per cent hike in the assets ratio would embrace about Rs 50 crores of investments at the present level of deposits. However, the average investment-deposit ratio of the banking system is currently around 30 per cent, or two points above the higher minimum of 28 per cent as proposed from August

28. True, there are a few banks with precarious investment levels. They would have to add to their holdings of Government and other approved securities; their demand could conceivably be of the order of Rs 25 crores. But the net additional investment by the banking system in Government and approved securities, as a result of the raising of the statutory liquidity ratio, may well be considerably less than this figure because of the existence of floating stocks of Government securities within the system.

Government Straitjacket for Industrial Relations

Bagaram Tulpule writes:

THE Industrial Relations Commissions to be set up under the recent, widely publicised decision of the Standing Labour Committee, will have little resemblance, except in name, to the IRCs which had been recommended by the National Labour Commission. The latter were intended to be an integral part of a new approach to the whole question of regulation of labour-management relations. Minimising the influence and interference of Government in industrial relations, ending the inevitability of compulsory adjudication and making the voluntary, bipartite dispute-settling processes more purposeful — these were the guiding objectives of the NLC's recommendations, although the Commission itself did not go far enough to really meet these objectives. The IRC, according to the NLC, was to have a central role to play in this new approach and adjudication of disputes was hardly intended to be their principal function.

The Standing Labour Committee was faced with a near or less total rejection by the Central and State Governments of the guiding objectives set out by the NLC. In response to the creation of some kind of IRCs, Government has taken care to trim their authority and functions in such a way as not to let them encroach on any of its own existing powers. In the result, the IRCs may well turn out to be no more than a new name for our old and familiar Industrial Tribunals. That their personnel will not be wholly judicial as that of the Industrial Tribunals are at present, will make little difference to their powers and functions. Clearly, it will be naive to believe that IRCs will be, or are even intended to be, harbingers of a new phase in industrial relations in our country.

It is hardly surprising that the deli-

berations of the Standing Labour Committee should have taken this turn. The documentation on the agenda of the Committee prepared by the Labour Ministry as well as the opening address of the Union Labour Minister made it amply clear that Government did not feel that anything was seriously or basically wrong with the existing set-up for regulation of industrial relations. Almost every major recommendation of the NLC which might have amounted to a departure from the existing set-up or practice in this field had been expressly disapproved by Government even before the SLC met. The possibility of workers' ballot as an alternative procedure for union recognition, conciliation as well as adjudication of disputes by the IRCs, 30-day freedom of strike in non-essential services, all these were opposed by Government. In the face of this smugness on the part of Government, coupled with its determination to retain its existing powers, there was very little that the SLC could do. Government consented to even the watered-down IRCs only when confronted with the charge that it was throwing out a proposal that had the united support of labour and employers.

The total effect of the recommendations that seem to have emerged from the SLC deliberations could well be just the reverse of what the NLC had desired. Besides the Government, either labour or management will have the power to refer a dispute directly for adjudication. The 'essential service' category will remain an open one, like the present 'public utility service', to be enlarged according to the convenience of State Governments. Endless restraints are to be imposed on the freedom of action of the recognised union in the name of preventing unfair labour practices — restraints which will make it virtually impossible for a recognised union to do anything except get involved in endless legal proceedings in one forum or another. Recognition itself will be constantly under threat on the basis of an all-embracing schedule of so-called unfair labour practices. All this can only further inhibit direct bipartite labour-management relations and sound collective bargaining.

In this broad context, even the proposal to provide for recognition of unions statutorily, loses much of its significance. Apart from the fact that verification of membership as the basis for union recognition has been found to be unsatisfactory over the past twelve years since the adoption of the Code

of Discipline in Industry, it is doubtful if unions will find recognition itself worth getting if it binds them down in the way that the unfair labour practices provisions will. Indeed, even today, under the Bombay Industrial Relations Act which provides for statutory recognition of unions accompanied by comprehensive restrictions on any direct or organised pressure action by them, it is being increasingly felt that recognition becomes a liability to unions. Their rivals in the field, unencumbered by fears of forfeiting recognition, are free to resort to strikes and not infrequently indulge in disorderly and violent forms of action to force employers to come to terms and to draw workers into their own fold, while the recognised union watches helplessly.

Long before the SLC session, the AITUC had declared its total rejection of the recommendations of the NLC and it stayed away from the SLC since it did not want to get into a discussion of those recommendations. The HMS did attend the SLC — it had earlier boycotted the Indian Labour Conference convened to discuss the NLC report — but its delegate recorded his dissent from several important points in the proposals which the SLC accepted. Indeed, there seems to be considerable doubt as to what exactly was accepted, the official handouts notwithstanding. At least so far as labour is concerned, the SLC's proclaimed decisions will lack the moral authority of a really unanimous tripartite agreement.

Thus, a valuable opportunity to reshape the industrial relations set-up in the country on the basis of a new and rational approach has been lost mainly because of the refusal of Government, irrespective of party or doctrine, to part with authority even to a limited extent.

New City's First Citizens

MAHARASHTRA GOVERNMENT'S plan to build a new city on the mainland across Bombay has, not unexpectedly, run into a political storm. In the debate in the State Assembly the other day, opposition leaders went so far as to ask for the scrapping of the whole idea.

The compelling reasons for developing an alternative to Bombay is obvious. Bombay is becoming unbearably crowded, with densities reaching above 1,500-1,600 per acre in areas like Bhuleshwar. The city's traffic and congestion problems are now compounded by the threat of pollution. The city, as it has grown, can hardly afford any kind

of social life to its citizens — even the lower middle classes, let alone the poorer sections.

It is to the credit of the Maharashtra Government that it has on the whole shown greater awareness of Bombay's problems than have other State Governments of similar situations within their States. It has actively discouraged the setting up of industries in Bombay. It has also, through the State Investment Corporation of Maharashtra (SICOM), a systematic policy of providing incentives for location of industries in other parts of the State — a policy which has been flattered by imitation by other States, notably West Bengal and Rajasthan.

The plan for a new city across the creek fits into this context. First, given proper communication, the area is not so distant as to give rise to resistance to location in the new city. Second, the area is sparsely populated at present and, therefore, offers all the advantages for proper town planning. Third, the location of the city on the mainland should enable diffused urbanisation to spread, without the water barrier which Bombay faces.

It would be for the new town authority to make the most of the opportunity. Learning its lesson from Bombay's haphazard growth, it needs to strike out for a system of planning which will remove the disadvantages of urban living so evident in Bombay and ensure minimum standards of communal life — transportation, housing, social amenities — to all its citizens.

The new town authority must, however, realise that its first citizens are the people who already live in the area. They should not be made casualties or be sacrificed in the interest of providing a better life to the future citizens of the new city. Financial compensation for land and other property taken over is not always a fair recompense for the loss of a way of life and living, however inadequate or even miserable. The new city authorities, therefore, need to work out a system which will assure these people not only fair compensation but assured livelihood and a better life than they have had hitherto.

This is a matter about which legislators belonging to all the parties in the State Assembly would do well to be vigilant since those in charge of the new city may, in their anxiety to get on with the job, consider their obligation to the present population of the area (largely poor and illiterate) fulfilled with the offer of some sort of monetary compensation.

Profitable because Accountable

OVER the last two years, STC has made significant progress. It has handled substantially larger volumes of exports and imports as well as domestic sales — at lower costs and very much higher profits. It has brought down the proportion of stocks to sales to almost one-fourth of the level in 1967-68; the ratio of expenditure to sales is about one-third lower than in 1967-68. Few companies, in the private or public sectors, can boast of such quick achievement.

Since absence of accountability has often been identified as the nub of the public sector's indifferent performance, P.L. Tandon's description of accountability as enforced in STC — the theme of his speech at the latest annual general meeting of the Corporation — assumes special interest. In what way has the style and substance of management in STC differed from what exists in other public sector undertakings? Tandon does not regard accountability as a matter of "who are you responsible to?" but rather as of "what are you responsible for?". He would consider his responsibilities met if he has achieved whatever objectives he has set in advance for his company. Accountability to him "is a style of management". If it is to be of any use the appraisal of an enterprise's performance has to be done in time and must be related to certain standards. The object of any appraisal has to be to "leave the management with a knowledge of where it did well or badly or should do better in the future". The examination should not be concerned only with the propriety of actions, but should also take account of their results. It follows then that "an examination which leaves a management crestfallen will have harmed it". There is an obvious reference here to the reports on public sector undertakings by the various official committees which often pick on minor aspects of their operations to investigate in detail.

In Tandon's view, public sector enterprises should — as STC has done under him — set themselves definite standards of performance and then strive to achieve them. However, Tandon does not touch upon the problem of how these standards are established and whether these are to be agreed with a higher authority. Also, are these standards broken down further so that every individual in the organisation has a task

budget against which he can be appraised? Further, it would be interesting to know what weightage is given to customer satisfaction among the objectives that STC sets for itself, for here the Corporation's record may not be as sparkling as it is in other respects.

STC prepares a performance budget each year, and attempts also to project this performance budget into the future. This budget is "a statement of marketing intentions, quantified in terms of men, money and materials required to translate intentions into results — exports, imports and profits". Performance is then appraised on a daily, monthly, quarterly and annual basis. STC must be the first public sector undertaking to prepare a daily cash statement. Its vastly improved cash management, which brought down its overdraft drastically, is said to have hurt its banker's revenues. The weekly appraisal indicates sales, orders booked, and pending orders for the current year, against comparable figures for the previous year, and against the budget. It also shows the position on stocks — a practice which most public limited companies follow. The monthly appraisal is a more comprehensive review of the Corporation, and the quarterly appraisal consists of a comprehensive balance-sheet and profit and loss account duly audited by the internal auditor. The annual appraisal is thus ready soon after the close of the year and STC is able to declare its annual results quite early like other well-managed public limited companies.

STC may now want to follow the line that profit is a good judge of efficiency, but it will yet have to estimate the social benefit of some of its activities which are not very profitable. Does Government have a clear enough appreciation of what it wants from STC so that it can contribute meaningfully to setting the Corporation's overall objectives? Also, while STC may have shown that professional management practices in a public sector corporation, with minimum interference from Government departments, is conducive to greater efficiency, one wonders how much of what has been achieved has been possible because of the present chairman's independent prestige. Would all this have been accepted and implemented as quickly had STC been as subservient in its relations with Government de-

partments as many other public sector undertakings are? Further, will STC's performance bring to bear some pressure for loosening the bureaucratic hold on public sector undertakings and for introducing the elements of professional management in them?

Reserve Bank Relents

A Correspondent writes:

DEPOSIT mobilisation in the rural and semi-urban areas cannot be effective without door-to-door service provided to the potential depositors. Excepting salary earners and a few large traders and farmers, others are not familiar with banks and banking. They are also unlikely to have the time to approach banks in person during banking hours. All in all, they have to be actively persuaded to use the services of banks. For all these reasons, a proven deposit collection technique has been for banks to appoint agents to regularly collect recurring deposits from various sections of the rural or semi-urban population by approaching them at their residences. This is being done in the case of, for instance, the 'pigmy' and 'nityanidhi' deposits.

Reserve Bank, however, felt that the commission which these agents got — subject to a maximum of 2.5 per cent of the collection — was in the nature of brokerage. It had, therefore, directed banks some time ago not to pay commission in excess of a nominal figure. Later on, this regulation was relaxed and commission was restricted to Rs 300 per month and to a maximum of Rs 10 per account. The intention probably was to induce agents to canvass a large number of small accounts.

What the Reserve Bank did not appreciate adequately is that in the rural and semi-urban areas persuasion is necessary not only for small accounts but for large ones as well. Further, it is impossible for an agent to make a living if he is made to canvass only small accounts. To make all the effort that an agent has to undertake to collect deposits worthwhile he has to earn adequate remuneration and this he cannot do unless he is in a position to canvass at least a few big accounts.

The Reserve Bank evidently confused wages on a piece rate basis with brokerage. A broker merely brings a potential depositor to a particular bank (when he might have gone to another) while an agent in the rural and semi-urban areas actually goes out into the field to phy-

sically collect deposits. This is a vital difference which was not adequately appreciated. It was also not realised that these agents perform a very valuable service in mobilising deposits from persons not at all familiar with banks.

The Reserve Bank has at last evidently recognised these facets of the problem and has recently withdrawn its earlier restrictions on commissions paid to agents for collecting deposits. This reversal of policy is indeed welcome, but the fact that it came only in the face of criticism of the nationalised banks for the slow pace of deposit mobilisation once again highlights the *ad hoc* and arbitrary nature of decision-making.

Landlordship in Textiles

THE cotton textile industry has gone through lean times in the last three years with a further marginal reduction in utilised capacity and fall in production. At the same time, the textile machinery industry faced lean local demand, made good only partially by export markets. No more opportune combination of circumstances for undertaking a modernisation programme for the textile mills could have been found. However, the opportunity was missed, demonstrating once again the shortsightedness of industrialists and policy-makers alike.

Now the opportunity has passed. A survey undertaken by the Planning Commission shows that the cost of modernisation has increased and, squeezed by rising cotton and wage costs, the cotton textile industry does not have adequate profits to carry through a modernisation programme.

The industry's cash accruals have never been large. The Reserve Bank's study of 1,501 companies (Reserve Bank of India Bulletin, August 1969) shows that 275 cotton textile companies with a turnover of Rs 880 crores had, besides depreciation provision of Rs 30 crores, a plough-back of Rs 17 lakhs in 1966-67. The results since then have been worse, and have only just begun to improve. A *Financial Express* study (August 3, 1970) of company finance for April-June 1970, shows that 59 cotton textile companies showed an improvement in sales from Rs 326 crores to Rs 355 crores and in pre-tax profit from Rs 6.16 crores to Rs 17.04 crores (about 5 per cent on sales).

This is not the whole explanation of the tardy progress of modernisation, however. First, a part of the cotton textile industry's cash accruals has gone

to finance other industries, as the balance-sheets of many textile mills show. Secondly, the good mills — for instance, those in the Mafatlal, Wadia and Lalbhai groups — have always emphasised modernisation, and thus kept themselves abreast of times. As a result, they have maintained their profitability. Thirdly, it follows that it is the mills which have not modernised that need modernisation most and these are also the mills which have not been able to earn enough to be able to afford it. In the end, the National Textile Corporation has been left holding the sick babies.

For such units, Government needs to take drastic steps. First, Government needs to impose a high enough wealth tax on companies to impose minimum standards of efficiency on all managements. Secondly, Government needs to have a clear policy on mergers or state takeover to oust incompetent managements which run down or fritter away capital assets and reduce employment opportunities. Soft-glove tactics will not succeed in putting an end to hereditary landlordship in the textile industry.

Purposeful Devaluation

THE listing requirements of the Bombay Stock Exchange are the strictest and, with good administration, are required to be observed. Indian Iron shares were suspended on the Bombay Exchange on July 30 for failure to meet the BSE listing requirements. The recent decision of Indian Iron not to seek listing on the Bombay Exchange is, therefore, only a formalisation of an existing situation. However, the Bombay market is the most active market for shares and Indian Iron's decision has broader implications which need to be examined.

First, since the Bombay market acts as a kind of a link between the various markets, non-listing on the Bombay Exchange will remove a major source of hedging facilities between markets. Secondly, non-listing in the most active market will reduce the liquidity of the Indian Iron shares. This will affect the volume of transactions in the scrip and will also, thereby, reduce its attraction as a collateral. Loss of liquidity will thus be cumulative, and should have a bearish impact on the scrip.

It is known that Indian Iron shares have been for some years caught in a speculative grip and the company's decision not to renew listing might have some relation to this fact. A substan-

tial chunk of Indian Iron shareholding is now held in *budla* transactions by newspaper and jute companies against bank borrowings — reportedly with official blessing in the past. Under the new dispensation, particularly with threats to voting rights of shares held by means of bank borrowings, this holding has become insecure — and meaningless in terms of ability to influence the management of the company. Indian Iron's decision may be a shrewd move to further reduce the attractiveness of its shares for this purpose. Clearly, one may expect a prolonged bear phase in this scrip.

Standard to Start Moving?

TAMIL Nadu Chief Minister Karunanidhi's recent visit to UK might pay some dividend to Standard Motors. Going by newspaper reports, British Leyland has been evidently sufficiently impressed to give up its role as Standard's sleeping partner and to agree to play an active role in reviving the unit. Considering the pace at which the official inquiry is moving — with detailed (and mostly irrelevant) questions on technical and accounting matters, as if the Tariff Commission reports and data did not exist at all, and with visits to all automobile units thrown in as a 'perk' — it is evident that the Government machinery is not much interested in arriving at a decision.

Leyland is apparently sending out a man to India to draw up proposals for giving a new look to Standard Motors' position in the Indian automobile market. Even if a full-scale merger with Ashok Leyland is not worked out, it is almost certain that a fairly close association between the two will be established. The major question is perhaps about the use of the Standard factory — the car to be made and the numbers in which it is to be made. To some extent, the Government decision to make a small car in the public sector will be a factor in this rethinking on Standard's future: a small car from Standard with a small output is obviously ruled out.

This leaves Standard the option of a large car. Telco has been arguing for a large car — say, 10,000 cars per year at Rs 30,000 each — which has some justification in a country of vast distances like India. Standard is thinking in terms of 10,000 cars; British Leyland has a Triumph 2000 saloon which fits the bill if it is assumed that a large car is the only field open to Standard. Will British Leyland opt for this model?

Iravati Karve

THE sudden death of Iravati Karve is a shock to her academic friends and close associates. It was a joy to be with her. She was a delightful talker and conversed on all subjects with authority and involvement. She enriched her anthropological and literary writings by synthesising in a unique way the objectivity of the scientist and the emotional fervour of the litterateur. From the day I came in personal contact with her about ten years back, I had quite a few occasions to have an intimate glimpse of her personality. Her house, her style of life, her way of looking at things and persons, were expressive of a unique combination of simplicity and elegance.

Iravati Karve rejected any doctrinaire approach and made it a point to study Indian society first hand. Her publications on the *Ramayana* and the *Mahabharata* were the outcome of her deep and abiding interest in Indian society. When she was at her desk, she worked with zeal and candour, and left no stone unturned to come to grips with the subject. She travelled widely and it was always a treat to travel in her company. She could talk on people and places, on fauna and flora, on rivers and ridges and knew every nook and corner of India. She travelled on foot in some places in order to get the feel of Maharashtra. Once she walked with the devotees of the varakari sect upto Pandharpur and her article वटचाल (Vatchal) combines sociological knowledge with religious insight. Her mind was not regional. She talked feelingly of Tamil Nadu and Kerala, of Gujarat and Orissa.

This intense desire to know made her probe every aspect of society. Her researches were not mere paper researches, nor perfect and without fault. She used to say "We must know our society and evolve our conceptual tools. The Western concepts have their limitations. We must not reject every Western model. But we must not be blind followers. We must test, before we apply these concepts". This explains her persistent efforts to go beyond the obvious. If she had lived to complete the Dhanga project on which she had been working, she would have been able to throw light on the dynamics of a community which is today culturally 'transitional'.

Whatever she had on hand, whether it was a detective story or a crossword

puzzle or a kitchen chore, she was totally engrossed in it till it was completed. Her feminine touch was seen in her living room. It was cosy and comfortable and symbolised her familial and intellectual interests.

At a time when anthropology was in its infancy and research grants were hardly available, she did her best with the limited means available to build up the science and the Department of Anthropology in the Deccan College, Poona. She has left a legacy of her publications which will be a great inspiration to those who follow in her footsteps. Yet the academic world is poorer today, for it has lost a great scholar who gave a humane orientation to scholarship.

H. ACHARYA

Nasik, August 13

Policing Education

YOUR Lucknow Correspondent ("Policing Education", June 13, p 933) has done well to underline the importance of educational planning in the country. However some of the steps mentioned by him need clarification. He has recommended that a certain minimum percentage of attendance should be laid down for qualifying to appear for an examination. What is the point of forcing students to attend lectures, if all that the professors dish out to them is just information and facts? Most of our syllabuses are absolutely out-dated. Knowledge is growing at such a rapid pace that periodic revision of the courses of study is absolutely essential. Again, the calibre of most of the teaching faculty is sub-standard. Most professors pass on to the students the learning they had themselves acquired as students. Instead of forcing students to attend lectures, and then incurring the risk of indiscipline in classes, the authorities would do well to revise the courses and make lectures more interesting and educational.

The other suggestion of your Correspondent, that "the levels of examinations" be given thought to is sound. It is a real pity that examination results are often decided on the basis of political expediency, student unrest, admissions to professional institutions and so on. The chief victim of this academic thuggery is the average student, who has no official channel of appeal, but has to resort to the streets to express his

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frustration. It appears that most Universities take delight in setting absolute academic standards, without consideration of the actual academic potential of the average student. In one Indian University, known to have very high academic standards, the BA, Commerce results have often been as low as 28 per cent and 40 per cent. One leading daily newspaper described this as the "massacre of the innocents". If results in a University are as low as 28 per cent, it only means that there is something seriously wrong either with the standard of examinations and evaluation or with the teaching staff and the educational system. In both cases the University is responsible and the student is the victim.

Your Correspondent, like all observers, has condemned the use of unfair means at examinations and the resultant violence. But a student resorts to unfair means because the present system of examination is a test of his memory and his nerves and not his intellectual and creative calibre. If he fails in this "informational and factual" examination, his future is marred. Despair leads to desperation. So, the most sensible solution is to reform the educational system, so that opportunity for the use of unfair means is minimised. Lathis, bullets and policing are only temporary solutions. The root cause of the present malaise deserves to be examined and suitable action taken immediately.

There is talk, plenty of talk, about reform. There are three or four reports on educational reform every year. But that is all. There are plenty of promises and much advice to students on honesty, discipline, and on "nation-building" while politicians set the most deplorable examples in political barbarism in Delhi. While politicians play havoc with the future of the country, professors convert the Universities into mini-political bodies and parents lack the knowledge to train their children, our Universities continue churning out graduates like depreciated machines manufacturing rusty cogs. Perhaps the question posed by a student I met at a recent students' conference sums up the situation: "If a person who does not pay taxes for 10 years, can become President of a party and also remain a Cabinet Minister, then what harm do I do if I copy a little?"

RAJENDRA K ANEJA
Sydenham College of Commerce and Economics, Bombay

Forgotten Axiom

Romesh Thapar

INDIRA GANDHI'S skill in politicking has helped her to break the back of almost every party in the country, but it has yet to restore the backbone of her party. This fact is beginning to weigh more and more heavily in the analysis of the trends now unfolding, trends which are pushing parties into 'coalitions', 'adjustments' and 'understandings' for mid-term polls and the division of political power following the elections.

One of the axioms of political activity in any situation — underdeveloped, developing or developed — is to consolidate and cement the unity of one's own party before proceeding to coalitions, adjustments and understandings. Such unity has to be on a clear-cut programme for action. Then, it is possible to collaborate with all manner of double-talking groups, and without damage. This axiom seems to have been forgotten by everyone — and, in particular, the ruling Congress party.

POLITICAL PLAY

Indira Gandhi and her colleagues, despite their rich fund of experience, have moved into coalitions with yesterday's defectors in the strategic UP-Bihar area and are now talking of adjustments in Kerala with a mini-front led by the CPI and including the Muslim League. Maybe, sooner than we expect, there will be understandings in other regions. As the situation gets more involved, and the implications for the future of these adjustments and compacts begin to be understood more clearly, the criticism against this kind of political play will mount and be reflected in inner-party discussions.

What inspires *this* leader to take *that* stand is beside the point. What is important is that the ruling party cannot go electioneering without a carefully thought-out programme. Speeches are not programmes. Nor are 'stray thoughts'. A programme should commit a party to certain objectives within a specific time span: it should also embody elements which erode the support of other parties. The ruling Congress party has also to anchor itself to a dynamic centrist policy or else developing polarisations will reduce it to 'tail-ism' of one kind or the other. All this is not even thought of in the manipulations

under way at the moment. A sad state of affairs, to say the least — for the gainers can only be the vigorous, predatory Right and Left.

It is possible to see this happening in UP and Bihar. The absence of a programme gives a handle to the opportunists in the ruling Congress party to trade their support to parties in the coalitions to which they belong. The BKD is able to call the tune. If this sort of situation persists, the next logical development will be that groups of opportunists will institutionalise themselves in new parties to secure their future in coalitions.

It is strange that the ruling Congress party does not take time off to sketch its programme. The leadership is now in a position to take care of the pressures which usually build up from the Right and the Left. It is also sensitive to the need to evolve a revolutionary centrist policy based on a value system which is attractive to wide sections in rural and urban settings. A programme designed to tackle problems, to reduce inequalities and to buttress sovereign, democratic functioning would puncture many of the intrigues of internal and foreign lobbies — and, what is more, draw the best elements from among the sane-thinking sections to work together. This role the ruling Congress has failed to play: hence, its internal crisis and its inability to lead.

Judging from the speeches, Indira Gandhi is drawing the lines to isolate the Jan Sangh and the CPM. Formations like the Naxalites, the RSS and the Shiv Sena are to be crushed. The rest, as it were, are still respectable and can be allies. Broadly, a dynamic, centrist party could not do otherwise. But, the question remains: what is the content of the dynamic centrism of the ruling Congress party? The confusion on this point is widespread and encircles even the party's leading echelons.

The 'Cong-O' follows the debate in the 'Cong-I' with the closest of attention, and the more so after the debacle of the grand alliance gambit of Morarji Desai. There is general recognition that Indira Gandhi has won her battle against the *dadas*. Will she now forgive and forget — and heal the split? Opinion is naturally divided, but surprisingly the opposition to 'overtures' arises only from a familiar disgruntled group — Tarakeshwari Sinha, Sucheta Kripalani, Asoka Mehta and S N Mishra.

In other words, the rumblings over the goings-on in UP and Bihar, and the sharp reaction against the moves to tolerate the Muslim League, together with attempted wooing of the ruling Congress party by a section of the 'Cong-O' which is having second thoughts about the split, may yet start a chain reaction with interesting programmatic possibilities. Yes, programmatic — for without a programme politics is reduced to the kind of senseless game that breeds Naxalites. . . .

August 17

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)
Six months	Rs 32	
One year	Rs 60	Rs 75, \$ 10.00, £ 4 4s
Two years	Rs 110	Rs 140, \$ 18.75, £ 7 15s
Three years	Rs 160	Rs 205, \$ 27.50, £ 11 8s

Foreign Air Mail Rates on Inquiry

Concessional Rates for Students, Teachers and Researchers			
Six months	Rs 13	One year	Rs 25
Two years	Rs 45	Three years	Rs 65

Concessional Rates Are Not Applicable to Institutions

Not to Reason Why

Nishtar

STOCK markets are no longer bothered about Government permission to resume forward trading. They have found a way out. As is usual in such matters, the more speculative Dalal Street has given the lead with its ingenious 10-day settlement scheme. It should not be long before other markets fall in line. Under Bombay's scheme, one can buy or sell freely and delivery can be taken or given. All the outstanding business has to be squared up by the close of the settlement day; but if buyers and sellers can come to an understanding to keep their business alive, the market authorities are not to take any notice of it. One could say that this is no forward trading, it is pure gambling. But except for some respectability that goes with these words, there is perhaps very little to choose between gambling and speculation. It is amazing that the market authorities should have waited for more than 13 months and allowed their members to live on a starvation diet. Quite possibly, left to themselves, the market authorities would not have liked to resort to this not-so-desirable step. But they could not resist the mounting pressure from the stock exchange fraternity for resumption of forward trading. Having failed to persuade Government to lift the ban, the market authorities decided to go ahead on their own and relax the trading rules with a view to facilitate buying and selling for differences.

New Delhi can take its own time; it matters little now. Perhaps, the stock market bulls and investors would wish that the ban on forward trading continues. Under the new scheme of (forward) trading, bulls have a distinct edge over bears and it is relatively easy to rig squaring-up prices. The 10-day settlement scheme has proved to be an important bull point. Bullish fervour has reached a feverish pitch; there is not to reason why, there is but to buy and buy.

Bulls are in full command of the situation. The scarcity-induced boom is being constantly fed by the fuel of good corporate news. The very satisfactory rains in August which have greatly improved kharif crop prospects have been another helpful influence. Stock markets have also derived comfort from the Prime Minister's strong defence of the Government's economic policy and grant of industrial licences

to big houses. In its "heads I win and tails you lose" mood, the market has taken no notice of the further tightening of the credit squeeze.

The stock market has continued to scale new peaks and it is in no mood to look back yet. But it is well worth nothing that measured in terms of the *Financial Express* all-India index for equities, the market has already advanced by about 29 per cent from its year's low, by 9.4 per cent from the 1969 peak and it shows a rise of 50 per cent from last year's lowest point.

Agitation Misfires

THE 15-day cotton strike is over and normal trading is being resumed from August 20. One might say that the strike has been a success in that traders all over the country refrained from transacting for 15 days which is something they had never done before. But there is little doubt that the agitation organised by the All India Cotton Federation under the leadership of Madanmohan Ruia and Manubhai Amersey has proved to be a complete flop. But this should cause little surprise. It is now extremely unlikely that the Federation will venture again to undertake such a (mis)adventure.

The agitation has been ill-conceived and misdirected. It was foolish to expect that Government could be forced to give up the take-over of imports and to wind up the Cotton Corporation. Recent events have clearly demonstrated that despite Amersey's glib talk of a "grand alliance" of cotton producers, traders and mills to thwart Government's attempt to take over the cotton trade, the Federation has failed to muster the co-operation of growers and co-operatives in Maharashtra and Gujarat — the two major cotton growing States. The Maharashtra State Co-operative Marketing Federation and Gujarat Cotton Co-operative Federation have welcomed the setting up of the Cotton Corporation and assured their full support in efforts to provide incentives to cotton growers through efficient marketing services. Industry's response too had been lukewarm. Much against the wishes of the trade, industry participated in the Cotton Textiles Consultative Board meeting. And this was not about all. Even traders have been divided on the issue of waging a

'war' against Indira Gandhi's socialist Government.

According to a press note issued by the *ad hoc* committee of the All India Cotton Federation, the agitation has been suspended following "some clarifications and assurances" by some of the "responsible and important authorities" in New Delhi in respect of their "intentions regarding the take-over of cotton and other demands made by the cotton trade at the All India Cotton Conference". The Federation has also stated that if Government actions in the near future were not in keeping with the "spirit of the assurances" given, the trade would be compelled to start further agitation. How is one to take these face saving statements seriously? What new "clarifications and assurances" could there be when L N Mishra, the Union Minister of State for Foreign Trade, had repeatedly pointed out that while the decision to canalise imports was irrevocable, Government was anxious to seek the co-operation of knowledgeable and experienced men engaged in import business. Mishra had even gone to the extent of stating at the Cotton Textiles Consultative Board meeting that domestic trade in cotton could be carried on "as if the Corporation has not taken over this trade".

One hopes that the trade has realised that the agitational approach could have done more harm than good. It is high time that the trade starts talks with Government in right earnest on how best to accommodate itself in the proposed new set up so as to render its expert services in cotton marketing. Time is of the essence. The Government is keen to pool the experience of all the sectors of the trade for the efficient running of the Corporation.

That Government should have allowed imports of Sudanese cotton as before without the intervention of the Cotton Corporation even though it has announced its decision to canalise imports from the commencement of the new season (1970-71) is a clear indication of its earnest desire not to do anything in undue haste. The Cotton Corporation has still to get into stride. Its chairman, Rasiklal U Parikh has reiterated that the Corporation will work in co-operation with the grower, the mills and the traders as well. It would be unfortunate if the trade were not to extend its fullest possible co-operation to the Corporation for national good. The trade must recognise the winds of change in the country.

Heavy Discounts

ALL the oilseeds producing areas have had very satisfactory rains by now; the deficits in the northern States have been wiped out. Almost everywhere the condition of the standing groundnut crop is reported as good to excellent. If the last rains in September are also satisfactory, the country could look forward to a record crop. Of course, in the absence of any technological breakthrough, the increase in production over the previous best harvest in 1964-65 can only be marginal.

Prospects of a bumper groundnut crop which holds the key to the overall supply position of edible oils and the general trend in oilseeds prices has not had any noticeable effect on the spot market where prices continue to hold remarkably firm, reflecting tight supply in face of increased seasonal off-take. But the prices of distant positions have eased quite appreciably. As against the spot price of about Rs 5,275 (per tonne), groundnut oil October delivery is quoted around Rs 3,800 and the November position is still lower at around Rs 3,300. Trading in new crop contracts in linseed and castor seed has commenced at huge discounts.

COMPANIES

Privy Perks

Hansavivek

WITH more disclosure required by law and a little more vigilance on the part of shareholders, company practices are increasingly being questioned. Since we are still in the semi-piratical stage of company management, this yields interesting experiments in interaction between shareholders and company managements.

K T Merchant raised some of these issues in his comments at the annual general meeting of New India Assurance. These issues, because of their relevance to the broader philosophy of corporate business, have attracted wide attention. Merchant in his statement focused attention on three aspects of New India's operation: (a) portfolio management, (b) accounting practices and responsibilities, and (c) management-labour relations, especially double standards in management's treatment of itself and of labour.

New India's earnings on its portfolio is around 6 per cent and the company had to write off Rs 78 lakhs on its in-

vestments this year (six times the figure of the previous year). This clearly does not speak highly of the quality of its portfolio management.

Second, New India's Annual Report does not give details of its portfolio, lumps together various kinds of income (rent, interest and dividends) and also mentions a sum of almost Rs 5 crores as "expenses of management" (while throwing in, as an aside, a Rs 10,000 donation to the Congress!). Vigilant auditors could have enforced greater disclosure but, unlike in the West where auditors try to improve their practices, auditors here seem to consider their duty done once they ensure the barest compliance with law.

Finally, New India has been plagued by bad staff relations for the last 20 years. Management cannot escape most of the responsibility for this. In this context, Merchant referred to the proposed terms of appointment of the Managing Director — particularly the extraordinarily generous privileges

sought to be extended to him in respect of leave accumulation, pension payment and medical benefits — to expose the management's double standards of treatment of management personnel and other employees and also management's tendency to take advantage of its control of the company to heap upon itself every conceivable manner of unjustifiable advantage and benefit.

Government has recently been much exercised over cornering of shares and take-over bids directed at established companies. In an attempt to deny use of commercial bank funds for financing potential take-over bids, Government has now decided that those who borrow from banks against shares will not have use of the voting rights in respect of the pledged shares. While the use of bank funds to finance successive rounds of share buying is a serious matter, it is also a fact that one consequence of the Government's attitude towards take-over bids has been to sanctify the *status quo* in company managements by protecting existing managements against the possibility of any effective challenge to their position. The protective umbrella extends impartially over efficient managements as well as incompetent and corrupt ones and in effect the Department of Company Law has become shareholders' only effective safeguard against self-aggrandising managements. However, considering all that resourceful and persistent managements are able to push past the Department, — as, for instance, in the case of New India Assurance — one wonders how effectively it really performs the watchdog function.

Many of the points raised by Merchant could have been taken up by a vigilant shareholders' association. But in India shareholders' associations are essentially brokers' rumps which are out to get what benefits they can from managements — particularly in the case of an insurance company which has a portfolio to turn over.

COLOUR-CHEM has produced better results for the year ended March last despite loss of month's production as a result of two strikes on an "issue of discipline". Total turnover was up from Rs 6.51 crores to Rs 7.75 crores and gross profit from Rs 1.15 crores to Rs 1.32 crores. Net profit stood at Rs 50 lakhs (Rs 38 lakhs) to give a net return of less than 6.3 per cent on the total funds employed in business and to cover one-and-a-half times the unchanged equity distribution of 12 per cent on the capital as enlarged by a bonus issue made in the proportion 4:7. Exports more than doubled, and the

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company is now treated as a 'priority unit' for the import of raw materials, components and spares in terms of the 1970-71 import policy. It will be able to meet its requirements of imported raw materials and components from 'preferred' sources of supply. The Diketene plant was started up during 1969-70, and the quality of pure Diketene produced at the plant conforms to the specifications laid down by the technical collaborators, Farbenfabriken Bayer AG. Installation of the intermediate plant has proceeded apace and regular production of intermediates and pigment raw materials is expected to start on schedule. Production and sales in the current year show "satisfactory" growth. Certain important indigenous raw materials, whose shortage acted as a limiting factor on production during 1969-70, are likely to be available in adequate quantities by the end of 1970.

ENGLISH ELECTRIC COMPANY saw the first benefits of the rationalisation programme whereby it was able to eliminate "wasteful" costs in branch activities. It achieved sales of Rs 5.04 crores during the 12 months ended March last against Rs 2.13 crores in the preceding 6 months. Gross profit jumped from less than Rs 8 lakhs to more than Rs 76 lakhs. At the net level, there was a surplus of Rs 28 lakhs against a deficit of Rs 19,013. The recommended 10 per cent dividend will be covered 1.4 times. Net return on total capital employed in business worked out at 8 per cent. The company has started to export its products and expects to increase this activity. Applications for substantial expansion of certain products are pending with Government. S K Handoo, Chairman, says that orders at the close of the year were "comfortably higher" than the corresponding figure a year before. He believes the company has entered a new era in which operations will be geared to a "more stable and sensible profit level".

HINDUSTAN LEVER's results for the first half of the current year show a severe squeeze on margins due to the sharp increase in raw materials costs, which were "not adequately compensated" under controls that apply to selling prices. Compared to the corresponding period of 1969, turnover in the first six months of 1970 expanded from Rs 54.07 crores to Rs 59.39 crores (including increase in exports from Rs 1.12 crores to Rs 3.19 crores) but profit before tax dropped from Rs 3.21 crores

ECONOMIC AND POLITICAL WEEKLY

to Rs 2.23 crores. After charging Rs 5 lakhs (Rs 8 lakhs) for capital expenditure on scientific research and Rs 1.20 crores (Rs 1.69 crores) for the estimated tax liability, net profit came to Rs 98 lakhs against Rs 144 lakhs in the first half of 1969. In the preceding full year, turnover amounted to Rs 108.79 crores and pre-tax profit Rs 6.16 crores. With

the capital expenditure on scientific research absorbing Rs 10 lakhs and taxation claiming Rs 3.31 crores, net profit was Rs 2.75 crores. With the greater availability of cheaper raw materials and some adjustments in selling prices, indications are that there will be a "partial recovery" in profits during the second half of this year.

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NEW DELHI

Dimmed Radicalism

IN the customary Independence Day address from the ramparts of Red Fort the Prime Minister spoke of the "challenge of change". But she and her Government are themselves very much caught up in the dilemma that the "challenge of change" poses. Having raised the banner of economic radicalism and having exacted much political capital from it, the Prime Minister is now confronted with the task of curbing and containing the pressures that her own radical postures have given rise to and which all political parties are understandably anxious to exploit. The thought of the next general election in 1972 or even earlier gives an added edge to the developing situation. It is in this context that the impact of the so-called "land-grab" movement has to be seen.

Almost all the Left parties have been drawn into the movement which was first initiated by the CPI. The CPI, greatly concerned about its inactivity in the rural areas and wanting to make an impression as an independent force in the face of the challenge from the CPI(M) and the Naxalites, had long been preparing for such a movement. The emerging agrarian situation consequent on the operation of Government's new agricultural strategy was another cause of worry for the CPI since the relations between the cultivating farmer, including the rich and middle farmer on whom the CPI has traditionally relied for support in the rural areas, and landless agricultural labour were beginning to change. Under the impact of modernisation of agriculture in certain parts of the country, the question of wages of agricultural labour was acquiring considerable importance.

The CPI leadership still dreads the thought of too direct an involvement in the land-owning peasant-agricultural labour conflict which might destroy its rich and middle peasant base while its ability to bring the landless agricultural labour masses under its influence remained uncertain. The CPI, therefore, hit upon the idea of directing the attention of the landless towards Government wasteland; it also took up landless labour's long-standing demand for homestead land. It is within this frame-

work that the land movement of the CPI was conceived and has been largely carried out, though in the course of the movement occupation of lands above the ceiling limits belonging to big landlords too has been brought within its scope — but with extreme circumspection.

The SSP and the PSP jumped into the fray once the movement began to attract attention. The SSP gave it a special flavour by, as usual, emphasising personalities rather than issues of policy. It concentrated its attention on lands held by prominent individuals, particularly leaders belonging to the Government and the ruling party.

IMPRESSIVE PERFORMANCE

Whatever be its background and the role of the various political parties involved in it, there is no doubt that the land-grab movement has assumed impressive proportions and has attracted wide attention. It has been claimed that nearly 1.5 lakh persons have taken direct part in it so far and that more than 20,000 have courted arrest. Various claims have also been made of land actually grabbed by volunteers of different parties. It is not possible to check these claims and it is very likely that they are considerably exaggerated. It is also not certain if any large part of the land grabbed will actually remain in the possession of those who have grabbed it. But the movement has undoubtedly focused attention on a major problem — that of land reform which the Government never tires of proclaiming loudly as an essential part of its radical approach but which has actually never been implemented. It is likely that the movement has also created active and militant bases in support of the demand for land reform in several rural areas. In those areas where the land-grab volunteers have succeeded in occupying land and ploughing it, there is bound to be fresh agitation at harvest time, even if they are now forcibly evicted by Government.

The sponsors of the movement believe that its present phase will, come to a close by the beginning of September but they are hopeful that agitation will erupt repeatedly in those areas

where the movement has made some mark. This is what poses a serious problem for Indira Gandhi's Government. The Prime Minister's discomfiture is compounded by the impact that the movement has made within her own party.

So far Central Government has evaded the issue of land reforms and passed the buck on to the State Governments. The Central leadership could get away with merely affirming its support for land reforms and urging the State Governments to do something in the matter. This easy way out may no longer be open to the Centre in the face of the land-grab movement. The Prime Minister as well as the Congress(R) President, Jagjivan Ram, have criticised the movement in harsh terms and sanctioned full police action in dealing with it. However, it is significant that they failed to get full backing from the party. In the prolonged discussions in the Congress Parliamentary Party, a sizeable section of members assailed the position taken by the leadership. Of course, another section was equally vehemently opposed to the movement but the leadership evidently did not want to be seen relying too much on it since this section was opposed to all talk of land reform itself. The development of this cleavage within the ruling party on an important issue of policy will be interesting to watch. In any case, the position that the Prime Minister and the top leadership of Congress (R) have taken on the land-grab movement has already clouded the image of radicalism and Leftism which Indira Gandhi has been so anxious to project.

A similar situation arose during the discussion on the Fourth Plan in Rajya Sabha. The Prime Minister had to firmly defend the philosophy of a mixed economy and in particular the role allotted to the big business houses in the Plan. She had to declare that big business houses would have to be allowed to expand in the interests of greater production and economic growth. She also made it plain that given the present economic situation only a limited attempt would be made by Government to achieve the objective of social justice. She capped it all with a scathing attack on the land grab movement which she said was based "partly on hatred and envy and partly on a desire for acquisitiveness" — a rather bitter morsel for the Young Turks to swallow!

GUJARAT

Anti-Alliance Stand Vindicated

THE proverbially timid Gujaratis are after all not so gutless when it comes to safeguarding their State's interests against the whirlwind of national politics. At the time of the Congress split, Gujarat Congress refused to join the Congress (R) even though this meant antagonising the Central Government upon whose decisions the State's economic growth to a great extent depends. It then stood firmly behind Morarji's leadership and the losing faction at the Centre. Now, after having successfully warded off a determined threat to its Government from the State unit of the Swatantra party, the Gujarat unit of Congress (O) has defied the high priests of its own party on the question of an alliance with Jan Sangh and Swatantra. It was the Gujarat unit's opposition which, more than anything else, upset Morarji Desai's 'grand alliance' strategy.

MORARJI MISCALCULATES

When the resolution on an alliance with Jan Sangh and Swatantra was first passed at the AICC(O) meeting on June 29, leaders of the Gujarat unit had maintained a discreet silence. The party high command had, however, interpreted this silence to mean acceptance of the idea, particularly since it had been mooted by Morarji who was believed to exercise unquestioned sway over the Gujarat unit of the party. But in fact Morarji had failed to judge the mood of his followers in Gujarat when he took their support for granted. On returning to Ahmedabad, Chief Minister Hitendra Desai and Vajubhai Shah, President of GPCC(O), found that the alliance strategy was unacceptable to the majority of MLAs and a number of Ministers. One major factor determining their attitude to an alliance with Swatantra was that by the time the idea was mooted the State unit of the Swatantra party had done its worst to dislodge the Government and failed. The Hitendra Desai ministry was safer in office than at any time since the last general election. In the circumstances, many Congress(O) leaders failed to see any reason why they should share power with the Swatantra party in the State — which is what an alliance with that party at the national level would have involved.

Subsequent developments in the Swatantra party have completely vindicated this line of reasoning.

The long-standing differences between the State unit of the party and its national leadership have come out into the open and caused a break-down of the Khatriya-Patel alliance which had been at the base of the party's emergence as a serious challenge to the Congress in Gujarat. The party in Gujarat is now split down the middle and Jaideepsinhji of Baria claims the support of at least half the number of Swatantra MLAs for his newly-formed Praja Parishad. It remains to be seen whether the Praja Parishad will be able to consolidate this support but it is a fact that the split in the Swatantra party has further strengthened Hitendra Desai's Government. As for the other opposition parties in the State, Jan Sangh has made, especially since the Ahmedabad riots, some headway among the urban petty bourgeoisie, but taking the State as a whole it is far from being a potent political force.

In the long run Congress (R) may stand to benefit from the split in the Swatantra party since it may hope to draw to itself a part of the support enjoyed by the united Swatantra party when it was the principal opposition in the State. Congress (R) may in course of time emerge as the major opposition to the Congress (O) Government, but that eventuality is a long way off. In fact the very possibility of Congress (R) emerging as a strong contender for power can be used by Hitendra Desai to sustain his continued opposition to any alliance with Jan Sangh and Swatantra. He could argue that the disaffection which would undoubtedly be created in Gujarat Congress (O) should the alliance idea be accepted, will make it possible for Congress (R) to wean away support from the party and to pose a threat to the Government on its own or, as is more likely, together with the Praja Parishad.

But while it is true that things have worked out in his favour for the moment, Hitendra Desai must have had to summon up all his courage to have initially led the opposition to the alliance strategy for, after all, in doing so he was pitting himself against his mentor, Morarji, to whom he owes his present position. In fact, almost all the present leaders of Congress (O) in Gujarat have risen to power with the backing of Morarji who placed them in power

as his proteges when he manoeuvred Jivraj Mehta's ouster from Gujarat politics. But then Hitendra knew that he could count on the support of many prominent members of the national leadership of Congress (O) like Ram Subhag Singh and Kamaraj. Further, since Gujarat is the principal stronghold of Congress (O), he could voice his opposition to the alliance proposal from a position of strength. Hitendra's task of defying Morarji's wishes was made easier by the fact that it was Thakorebhai Desai, Morarji's righthand-man in Gujarat, who had led the revolt against Morarji in the GPCC.

It is also possible that industrialist interests in Gujarat want Hitendra to take an independent stand keeping in view the State's economic interests, even if that means inviting the displeasure of Morarji. A more independent posture would help Gujarat to at least partially regain the Central Government's sympathy. The Centre's attitude is, of course, a vital factor influencing the economic prospect for the State. It may be true that a section of the rank and file of Gujarat Congress (O) favours alliance with Jan Sangh and Swatantra and that Gujarati small businessmen really believe in the danger of a communist takeover of the country. But the bigger businessmen know very well that the alleged threat of communism under Indira Gandhi's rule at the Centre is a hogey. Some of them, it is clear, played a major role in determining the Gujarat Congress (O)'s attitude to the proposed Jan Sangh-Swatantra-Congress (O) alliance to topple the Indira Government.

Asian Dehydrates

ASIAN DEHYDRATES, formed with the technical and financial collaboration of Buettner Werke AG of West Germany, has set up a factory at Nasik which has just started production. According to the terms of collaboration, Buettner Werke has agreed to undertake the general planning of the plant, supply plant and machinery, direct and supervise the erection of the plant and machinery, provide technical knowhow for the manufacture of dehydrated vegetables, train Indian engineers in West Germany and in India for the operation of the plant and assist the company in marketing 80 per cent of its production in markets outside India.

The company has an industrial license to manufacture 3,000 tons of dehydrated onions per year; the present installed capacity is 1,000 tons.

SINGAPORE

Where Nationalisation Hurts

THE future of the four Indian banks operating in Singapore becomes uncertain after the Banking Bill, introduced in Singapore Parliament in the end of July, becomes law. The four Indian banks functioning here are Bank of India, United Commercial Bank, Indian Overseas Bank and Indian Bank. Section 11 of the Bill states that no bank shall be given a licence if 50 per cent or more of its issued and paid-up capital is owned by or on behalf of a foreign government. The above four are among the banks nationalised in India last year. Besides India, China and Indonesia also operate Government-owned banks in Singapore. The operation of their banks in Singapore will also be affected when the Banking Bill is passed. The Bill however gives "absolute discretion" to the Finance Minister to grant a licence to any foreign government-owned bank for a period "not exceeding one year at any one time".

OTHER PROBLEMS

All the four Indian banks here function on the basis of yearly licences. In July all of them received new licences valid for a year (until July 1971). Before the nationalisation of banks in India, the United Commercial Bank in Singapore had a permanent banking licence, like several other foreign banks. But when it notified that it had been taken over by the Government last year, its permanent licence was revoked and it was issued a yearly licence, like the other three Indian banks.

The Indian banks handle quite a lot of India-Singapore trade and most people of Indian origin (who form one-tenth of Singapore's two million population) use them for making deposits. The deposits in them total about 80 million Singapore dollars (about Rs 196 million). And their yearly net profits amount to 1.7 million Singapore dollars (about Rs 4.2 million).

Even if the Finance Minister in his discretion gives licences to these banks for a year, they face other problems. Section 9 of the Bill lays down that no foreign bank whose issued and paid up capital was less than six million Singapore dollars (Rs 15 million) would be issued a licence to transact business in Singapore. Out of the four Indian banks, two, Indian Overseas Bank and Indian Bank, do not have paid up capital to that tune.

That is not the only condition. The Bill further asks every foreign bank to hold at least three million Singapore dollars (Rs 7.5 million) of its head office funds at all times in Singapore, in the form of assets approved by the local Banking Commissioner. None of the four Indian banks hold three million Singapore dollars of their head office funds. They, however, own buildings here, and it is to be seen if the Banking Commissioner will allow the value of those buildings to be included among assets held by them as part of their head office funds. If that is not allowed, the banks would have to obtain funds from their head offices in India, which might be difficult.

For the past year the Indian banks have not been able to remit their profits to India. It is likely that they might not be able to do so for another year. If this accumulation of funds here is considered assets held by these banks from their head office funds, then it is possible that at least two of them, Bank of India and United Commercial Bank, will qualify in respect of funds they must hold here in accordance with the provisions of the Bill. However, the foreign banks on yearly licences have been given two years to fulfil the above condition regarding holding three million Singapore dollars of their head office funds here in the form of assets.

To obtain a yearly licence now, the banks are likely to be asked to pay a heavy fee. So far the licences cost practically nothing, but now the fee, to be fixed yet, will be, according to reports current, about Singapore \$10,000 (Rs 25,000).

The Bill has so far been read in Parliament only once. But it is likely to be passed as it is, without any significant change. Singapore had not enacted a banking law after it separated from Malaysia in 1965. It allowed banks to function on the old basis of banking laws of Malaysia, of which it was part for three years, with the difference that it allowed foreign government-owned banks to operate in its territory. Malaysia's banking law does not permit foreign government-owned banks to function in that country. This law was one of the causes of friction between Malaysian and Singapore leaders, when Singapore was part of Malaysia. According to the Malaysian law, the Bank of

China, owned by the Peking Government, had to close its branch in Kuala Lumpur and its Singapore branch was also going to be closed when Singapore separated from the Federation of Malaysia. The Singapore Prime Minister, Lee Kuan Yew, at his first press conference after his country's ties were severed from Malaysia, announced that he was going to allow the Bank of China to continue operating in Singapore.

At that time there were only two foreign government-owned banks in Singapore, the Bank of China and the Bank Negara Indonesia. But last year, India, by nationalising its large banks, joined the ranks of the countries operating government-owned banks.

Only three Indian banks operate in Malaysia: United Commercial Bank, Indian Overseas Bank and Indian Bank. The Malaysian Government has given them time to let it know finally how they were going to be managed, since it did not allow foreign government-owned banks. The Malaysian Government authorities had heard reports that a new organisation was being set up in India to manage its banks abroad and that, in that organisation the Government would not be the major shareholder. But this has not been officially conveyed by India to Malaysia yet.

Seed Management

AN all-India conference on seed management, jointly organised last month by the National Seeds Corporation, FAO and UNICEF, resulted in agreement on the need for inter-State collaboration in the organisation and rapid expansion, on an all-India basis, of the country's seeds production programme if the agricultural production targets of the Fourth Plan are to be met. In order to reach the required output of high-quality breeder and stock seeds, a private seeds industry is to be created which may supplement the efforts now being made by NSC and the public sector. The State Governments, however, will have to decide individually what place they will grant such private seed growers, what role they will reserve for State-owned public enterprises or whether they will charge NSC with organising the local seed supply system. During the conference the heads of State agricultural planning and execution agencies discussed problems of uniform procedure in seed management, the setting of all-India standards of seed quality, a general certification system and the interpretation of the Seeds Act.

NEPAL

Nepal Congress Splits, Too

KOIRALO, a beautiful Himalayan flower, usually blossoms in March; but B P Koirala, the Nepalese leader whose name derives from it, has proved unpredictable in his seasons. He has travelled a long way, but the fruits of that travel seem uncertain today.

It was on a wet evening on October 30, 1968, that Koirala, leader of the outlawed Nepali Congress and ex-Prime Minister in the first elected government of 1959-60, was released from prison after eight long years, along with his close associate, Ganeshman Singh. On the following day King Mahendra granted pardon to 23 leading Nepali Congress exiles living in India, including Subarna Shumsher, who had been Deputy Prime Minister in the Nepali Congress government and had headed the party in exile. As news of Koirala's release was received in Nepalese towns and villages, festive oil lamps were lit, and well wishers of Nepal all over the world breathed a sigh of relief. The deadlock — which had started on December 15, 1960, when the uncomfortable alliance between King Mahendra and Koirala's popularly elected government abruptly ended and, backed by the army the King had imprisoned Koirala, abrogating the parliamentary constitution and substituting for it Panchayat Democracy which gave him direct control and power over the instruments of government — seemed at least to have been resolved.

CALL FOR REVOLUTION

It was again in the same month of October, in 1969, that through a statement at Varanasi calling for armed revolution against the "autocratic" rule of the King, that Koirala annoyed the powerful monarch. And again, this year in the same season, he has captured newspaper headlines by leaving for Europe with a certificate of indentification from the Indian Government — an act which may have implications not only for Nepal but also for Indo-Nepalese relations which could have done without further wrecking. The Indian passport followed refusal of a passport from the Singh Darbar, though a spokesman of the Nepalese government officially has said that B P Koirala had never formally applied for a passport. Koirala himself declared to the Indian and for-

eign press on the eve of his departure from New Delhi that he had applied for a passport to the Nepalese government to go abroad for treatment immediately after his release in 1968.

Rumours are rife in Kathmandu about the real reasons for Koirala's visit abroad. Eight years of imprisonment in the unhygienic Nakhu jail had damaged Koirala's health and treatment was imperative. Towards the end of his imprisonment a board of eminent Nepalese doctors headed by no less a person than the personal physician of the King, General Haldar, had suggested that Koirala badly needed immediate specialised attention in the United Kingdom. A few weeks later Koirala was released. Despite several formal and personal requests to Surya Bahadur Thapa and his successor Kirtinidhi Bista, 18 long months passed without a passport being given to him. Meanwhile, the intestinal growth had to be removed in Bombay and Koirala had to be hospitalised subsequently at the Indian Institute of Medical Sciences in Delhi. Some three months ago Koirala again approached the Singh Darbar through his brother Girija Prasad Koirala with a fresh application to be allowed to go abroad which was rejected on the ground that the applicant had to apply in person. Rumours have it that Nepali police were keeping meanwhile a 24-hour vigil at the Indo-Nepal border with a warrant should Koirala enter the kingdom. In fact, Koirala's long imprisonment and the growth in his political stature did little either to soften his political attitudes or to decrease the King's antipathy to him.

KING'S OVERTURES

Koirala's statements subsequent to his release did not help either. Last October, while addressing a Gandhi Centenary meeting at Rajghat, Varanasi, he openly advocated armed struggle as the only way to overthrow the "autocratic" rule of King Mahendra. As if this were not enough, Ganeshman Singh bitterly attacked the panchayat system. What followed was therefore inevitable. Though King Mahendra released another rebel, Krishna Prasad Bhattarai, speaker when the Koirala government was in power, he maintained an uncompromising attitude towards

Koirala. This caused an unfortunate split in the Nepali Congress between one section led by Koirala and Ganeshman Singh and the other by General Subarna Shumsher. Sources close to Nepali Congress maintain that both groups have reached a point of no return.

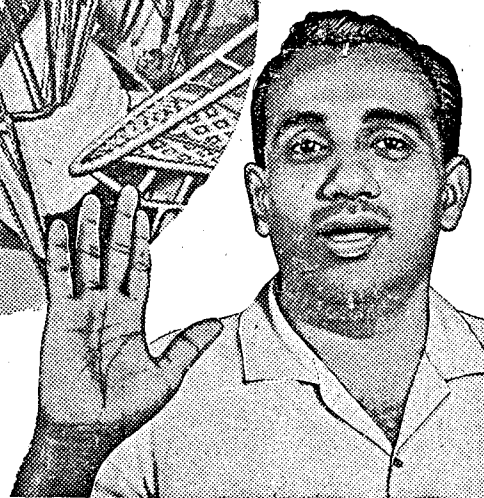
The result of this split on the democratic movement in Nepal has been devastating. The politically motivated Kathmandu elite is the segment of Nepal's population which provides the leadership for most aspects of Nepali life. This is bound to remain the key to Nepal's development. General Shumsher seems to have recognised this and decided that for the time being working from within the existing system promises the best way to a gradual democratisation. The King's heart attack in March 1968 seems to have at the same time brought him close to wanting to co-operate with the Nepali Congress leaders. No doubt, the inability of successive governments to rally the people behind the economic development programme hastened this change of heart. The King evidently felt that an injection of support from former political party activists might have a therapeutic effect on the pace of Nepal's progress which was feeling the pressure of sluggish agricultural production, inflation, administrative inadequacies and public malaise.

GOVERNMENT IN EXILE?

Whatever the motivation, however, the Government took pains to stress that it was not the King but the Nepali Congress leaders who were forced to make the basic compromise. This is credible, for, on May 5, 1968, General Subarna Shumsher had issued a statement in Calcutta pledging Nepali Congress support to the Panchayat system, in contravention of a party declaration issued the year before demanding nothing less than a constitutional assembly to outline the form of government under which the kingdom should function. To underscore his control of the situation, the King delayed by more than five months the reciprocal release of Koirala and the pardon of the exiles. Further, he did not and still has not legalised the Nepali Congress as a political party, nor has he reinstated any part of the parliamentary system.

That Koirala would not support the Panchayat system was also clear. Soon after his release in an interview to *Kalpana*, a Nepali weekly published from his hometown, Biratnagar, Koirala

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expressed his firm and solid belief in full-fledged democracy to which he felt Panchayat Democracy was no alternative. But the present split in the Congress must cause him worry. So far the financing of the democratic movement was looked after by Subarna Shumsher. Now, after the split, the Koirala group has to find other sources. It is with this objective in view it is rumoured in the Nepalese capital, that Koirala has planned his European trip. Besides addressing young European socialists at a

meeting organised by the Socialist International in London, B P Koirala is expected to explore possibilities of collecting funds and other help for launching a struggle in his country from well-wishers of Nepal. Koirala's opponents even suggest that if he gets the response he wants he may even try to form a Nepali Congress government-in-exile. But that may be to go too far. With the democrats at home divided, Koirala is far less able than Sihanouk in Cambodia.

feebleness is a point of fundamental concern that a vacuous partiality for the Soviet Union is beginning to colour foreign policy and increasingly divorce it from the national interest."

It was a "failure of diplomacy", argued *Hindustan Standard*. The "cartographic errors" in the Soviet encyclopaedia "may or may not be wilful but their continuance for fourteen long years is surely disturbing". Whatever measures New Delhi may have taken in the past have been ineffective and "the unflattering conclusion cannot, therefore, be resisted that Indian diplomacy has been a dismal failure". In fact, "Indian diplomacy has a uniform record of bungling and blundering and the episode of distorted Soviet maps is one unedifying chapter in that shameful history".

THE FOURTH ESTATE

All in the Game

Nireekshak

PARLIAMENT having reassembled for its monsoon session, journalistic attention is understandably focused on New Delhi. And there has not been one dull moment ever since the now familiar hardy annual, a no-confidence motion in the Council of Ministers, appeared on the parliamentary agenda. The near-unanimous editorial opinion on the no-confidence motion was that it was a "fatuous" exercise.

WORSE THAN FUTILE?

"There is no restraining some of the Opposition groups, notably the SSP", wrote *Amrita Bazar Patrika*. "They have willed that every session of Parliament should begin with a no-confidence motion against the Government, whatever may be the fate of the motion... The debate necessarily fell to a very low level, personal attacks on the Prime Minister being the dominant feature." As a result, the paper concluded, "to say that the two-day debate... on the motion was an exercise in futility is not enough. It was worse still". What could be worse than futile was left to the reader's imagination! *Nagpur Times* argued that the defeat of the motion was "a notable triumph for Mrs Gandhi's Ministry". The debate "nevertheless served the purpose of making the nation think of the pros and cons of concentration of power in a single individual in a democratic set up whose ideal is decentralisation of administration for the success of democracy".

Times of India dismissed the whole thing as "irrelevant". The "ritual" of a "censure motion" has "never been more empty of content than this time". For, it has come after "a pitiful ex-

posure" of the Opposition's "ability to come closer together...". What is more, *Times* said, the Opposition parties "do not want to face up to the fact that the all-important question today is not which party is in power but whether the competition for power between the various parties can be kept within reasonable limits". They are thus only adding to the gravity of "the very problems which are at the root of the present malaise".

From one no-confidence motion to another is obviously a small step and the angry protests of MPs against the Soviet Union's "cartographic aggression" against India had all the elements of an unstated no-confidence motion, except that this no-confidence was directed against Moscow also. "Cartographical impertinence" thundered *Statesman*. "Mr Swaran Singh's efforts to defuse the Opposition's ire over misleading Soviet maps only expose the full extent of the Government's impotence in this matter," it said. The paper's new editorial page layout, introduced last month, certainly makes for easier reading. It is the second 'change' that seems to have been affected in *Statesman* after N J Nanporia took over its editorship almost a year ago, the other being an undisguised commitment in general editorial policy to the right of centre. To return to "cartographical impertinence": "The External Affairs Ministry appears to have a greater solicitude for Russian feelings than for those of its own nationals." (I hadn't realised that the External Affairs Ministry had "its own nationals"!)

"Beyond Russian impertinence," *Statesman* concluded, "misleading maps and the External Affairs Ministry's

ALL SMILES

The Press reacted much more favourably to the Government's decision to establish consular relations with the German Democratic Republic at the level of Consulates-General. "Much water has flowed down the Rhine since Dr Adenauer used to leave unopened all communications from East Germany or contemptuously threw them away into the wastepaper basket", wrote *Tribune*. (It might have added that much water had flowed down the Jamuna also.) And "with the past fears of displeasing West Germany and the USA no longer quite valid, New Delhi has rightly opted for greater realism in this field". The move will "therefore be commended by most of the political parties", the paper said.

Deccan Herald voiced a more or less similar view. "India's decision to establish relations with East Germany at the level of Consulates-General," it wrote "is a half-way compromise that is nicely calibrated to meet the requirements of the situation today. Both countries stand to gain a great deal by a closer rapport and the extension and strengthening of ties do not imply any diminution of relations with any other country with which India has full diplomatic and friendly links... The perspectives of co-operative endeavour between the two nations have now broadened and there is every reason to hope the cordial links already existing will be further strengthened and enhanced."

An enthusiastic welcome was also accorded in editorial columns to the initialling of a non-aggression pact in Moscow between West Germany and the Soviet Union. *National Herald* regarded it as the "first steps for peace

in Europe". In a lengthy editorial (August 9) the paper said that the treaty "can, if ratified, change the course of history, as far as Europe can change it. It is not just renunciation of force between the two countries; it is promise of solutions for the problems outstanding between the two countries, where offers of similar no-war pacts in other areas have been rejected". The allusion to Indo-Pakistani relations here was not, however, pursued. "The German problem is the crux of the European problem. There are reservations in the treaty, and they need not be under-stressed or over-stressed... On any view the Moscow treaty is a step forward... It has been said that the treaty will in practice make little difference to anybody's life. But it does make a difference to the chances of the European peoples to live in peace."

Hindustan Times went quite lyrical, in thought at least though not perhaps in language. "Whether it be the impact of a beneficial configuration of cosmic objects or, more likely, the triumph of sanity among men on this planet [what, no sanity among women yet?] there is a surfeit of great good news", it proclaimed. There was a cease-fire in West Asia and a non-aggression treaty between West Germany and Soviet Union. "The two developments are not really parallel in many senses, except that both are extremely welcome. The Soviet-German accord is already accomplished and will pave the way for consolidating the East-West *detente* in Europe... The Moscow accord is definitely a major step forward, heralding the dawn of peace in Europe."

If only because of their rarity, I must mention two editorials on sport that were recently published in the Press. *Searchlight* wrote a rather long editorial on the Commonwealth Games, the only editorial of the day in that paper, and also the only editorial on the subject to have appeared in the daily press. *Nagpur Times* wrote about "officialdom in sports". It dealt with the generally unsatisfactory state of affairs in the management of Indian sports, with particular reference to the conduct of sports officials while on tours abroad. It was also quite heartening to note that the Davis Cup tie between India and West Germany, played in Poona recently, was very well covered. No one bothered to take editorial note of the match or tennis in general, but with what seems to be a growth of interest in reporting sport in general, other than cricket, editorial evaluation is bound to come!



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Caste in Motion

Dhirendra Narain

Structure and Change in Indian Society, edited by Milton Singer and Bernard Cohn; Aldine Publishing Co, Chicago, 1968; pp 507; \$ 10.

Social Mobility in the Caste System in India, edited by James Silverberg; Mouton, The Hague, 1968; pp 155.

TIME was when the Indian caste system was seen as only static and rigid. No change was thought permissible or was seen to have actually occurred. Bernard Barber provides some reasons why such a mistaken, or at least inadequate, view of caste persisted for so long. According to him, "... it is now clear, the older picture was derived from the official religious and ideological literature of Indian society, not from objective historical and field research, which has finally done so much to change our understanding" (Silverberg, p 26). Even so, it seems surprising that scholar after scholar should have taken this position, despite the fact that there are occasional insights to the contrary in several of the writers on caste. While they generally emphasised the uniqueness of the system and its unchanging character over time, they did mention, here and there, instances of castes changing their positions in the hierarchy. Concern with macro-level generalisation and overreliance on textual prescriptions are no doubt responsible for not building upon the occasional insights a systematic theory of mobility in caste. It is only recent empirical investigations, in local areas, that have yielded a considerable body of information on caste mobility.

COMPETENTLY WRITTEN

The two books under review are excellent examples of such scholarship. The two volumes differ not only in bulk but also in scope and focus. The Silverberg book is pointed in focus and narrow in scope — mobility in the caste system is the only theme round which the slim volume is organised. The Milton Singer and Bernard Cohn book has no such declared specific purpose except "... as an opportunity to present and review research in the social anthropology of South Asia which had been carried on over the last fifteen years but had not yet been reported in monographic form" (p vii). The scope is, therefore, quite vast and its aim ambitious, as the title of "Structure and Change in Indian Society"

suggests. All the articles in the two volumes are competently written, though of very uneven sizes, and improve our understanding of caste system in India.

M N Srinivas is the only Indian scholar in the Singer and Cohn volume and Y B Damle of Poona University the only one in the Silverberg volume. (I do not mention this as criticism but only as a point of information. Other Indian names occur in the list but there are no articles by them.) Srinivas has for long argued that castes change their positions upward in the hierarchy and his name is by now inseparably associated with the twin processes of Sanskritisation and Westernisation for capturing this dynamics of the caste system. In his paper, Srinivas mentions two factors that lead to upward caste mobility: "The two most potent sources of mobility were the fluidity of the political system, especially at the lower levels, and the availability of marginal land which could be brought under plow, itself the result of a static demographic situation" (Singer and Cohn, p 189).

If the validity of the above argument is granted, one could, then, plausibly argue that as one moves back into Indian history, one should find more and more caste mobility both in volume as well as in range. One wonders if Indian history will support such a view. While political fluidity, at a certain macro-level, may permit new dynasties to arise and allow them to elevate themselves in the caste structure, it has also been argued that the village social structure kept itself relatively intact through all the various political upheavals in India's long history which Srinivas himself acknowledges (p 190). The aim here is not to refute Srinivas but to introduce a measure of caution in using "the two most potent factors" of mobility in caste.

Having established the fact that mobility is possible and has in fact occurred, the important thing is to determine the extent of it. This, I think, is crucial. Otherwise we may make the same kind of mistake, in the reverse,

that the earlier writers on caste did in emphasising only its rigid and static character. In fact, reading the two volumes under review, one gets the feeling that the caste system is full of tension from below and is admitting tensions from all points in its porous body, thus implicitly lacking any great stability and internal coherence. The boundary maintaining aspect of a social system is conspicuous by its absence. Even if it is so by design, it is likely to be misleading unless correctives are supplied.

That wealth was never as unimportant as the simplistic fourfold *varna* division makes out is quite clear. In the classical prescription, it is the third *varna* of Vaishyas who are to engage in the acquisition of wealth. The cultural system, therefore, makes a very deliberate attempt to downgrade wealth as a factor of importance. And, yet, wealth speaks, in India as elsewhere and, I suppose, now as in the past. Empirical investigations reported in the volumes under review show acquisition of wealth (land) as quite a decisive factor in helping a caste to upgrade itself. Accepting these findings, the question naturally arises: how do the cultural and the social systems of the Hindus mesh together? If the earlier one-sided studies were couched in wholly cultural terms, the present ones are more or less in social structural terms.¹ One is as inadequate as the other, although following the fashion of the day, we may feel less dissatisfied with studies conducted in our own time. To be sure, the cultural side is not altogether forgotten — there is some discussion of caste mythology, etc.

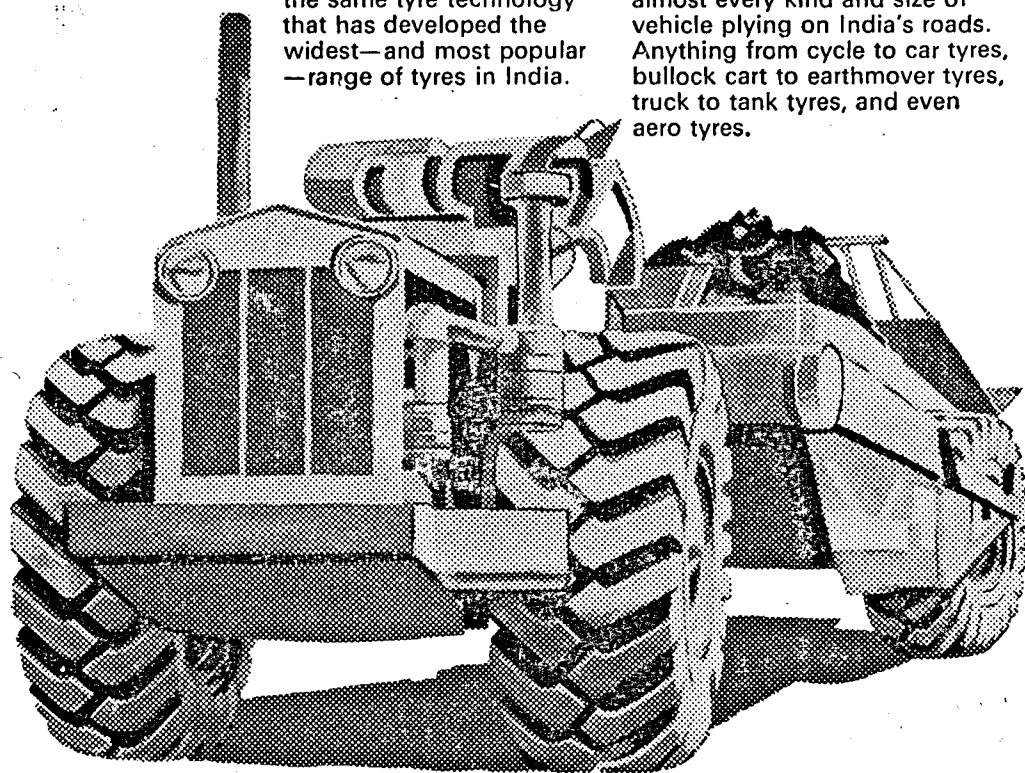
NEW VALIDITY

In spite of what the Indian Constitution decrees our social order to be, it is a fact that caste has acquired a new vitality under the democratic polity since Independence. Far from weakening, let alone dying out, there is a positive resurgence of caste. Getting out of local and narrow geographical boundaries, caste-members are establishing larger organisations and physical base (see Joseph E Schwartzberg's "Caste Regions of the North Indian Plain" in Singer and Cohn, pp 81-113). That legislation alone could not have abolished caste should cause no surprise to anyone; what surprises one is the terpenetration of caste and politics — politicisation of the caste, on the one hand, and politics dominated by caste

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groupings, all the way from the village to sometimes the State level, on the other. (Linguistic solidarity overriding caste solidarity has saved the Centre from caste manipulation.) The numerical strength of a group is obviously important in a parliamentary democracy. And acquisition of political power and influence, in some measure dependent on number, is yet another source for a caste moving itself up in the hierarchy.

There seems to be something especially nebulous about Kshatriya-status so that even in the past, as Srinivas says (Singer and Cohn, p 190), lower castes once politically powerful claimed to be Kshatriyas. Political power in the past usually meant being a king or a courtier and so claiming to be a Kshatriya was easier as he visibly exercised the duties of a Kshatriya. Political power now is more diffuse since the legitimacy of the polity proceeds from the people and polity itself is legitimately organised at all levels. So every caste possessing political power and influence today cannot claim to be Kshatriya in its quest for upward mobility. And yet it is remarkable how many do. Lynch in the Singer and Cohn volume and Damle in the Silverberg volume employ Robert Merton's reference group theory to explain why caste A wants to be caste B. The attempts are not wholly successful, for they do not succeed in showing why the Kshatriya caste, historically and contemporaneously, has been and is such a popular model of emulation.

NO FRONTAL ATTACK

Lynch is quite correct in pointing out that a great deal of caste effort to gain higher position occurs outside the caste system today. Political power and pressure, control over vote-banks, egalitarian ethos of the Constitution, etc, are employed to demand higher ranking than what the caste has hitherto been given. There is no frontal attack on the system itself but only a desire to be better. Another important point made by Lynch is the possibility of a single individual elevating himself, without waiting for the entire caste to Sanskritise. Increasing access to education and expansion in employment opportunities have made this phenomenon possible and it is safe to speculate that this trend will continue, nay, even grow, raising problems of dissensus in caste ranking which Marriott in both volumes and Barber in the Silverberg volume discuss.

What is the future of caste in India?

The answer must necessarily be speculative. And, yet, there is place for informed speculation, digesting the multitude of discrete informations revealed by different empirical studies and taking a small leap into the future. Galanter merely says, "It is just because traditional proponents and modern opponents of caste are linked together by the courts (and other mediating institutions, such as political parties) that it can confidently be predicted that what will emerge will be neither the caste society of the imagined past nor the 'casteless' society of the imagined future" (Singer and Cohn, p 333).

Srinivas defines caste in the following words: "A sociologist would define caste as a hereditary, endogamous, usually localised group, having a traditional association with an occupation, and a particular position in the local hierarchy of castes. Relations between castes are governed, among other things, by the concepts of pollution and purity, and generally, maximum commensality occurs within the caste" ("Caste in Modern India and Other Essays", Asia Publishing House, 1962, p 3). Occupational association was the first to break down. Endogamy is still prevalent by and large but the groups within which one can marry have enlarged, including at least the adjacent subcastes (besides other minor trends like intercaste marriages in urban areas, emergence of an intermarrying elite, etc). Commensality and with it notions of ritual pollution and purity, are on the decline, however slowly and however limitedly.

Hierarchy, as revealed by the two volumes under review, is sought to be changed. And if changes in hierarchy can be affected *quickly and extensively*, the hereditary basis of caste, though nominally true, will have very different meaning. No more then, "once a chamar, always a chamar". And I think there will be agreement on the statement that such changes will increase in future, perhaps at a faster rate than in the past. What, then, will the India of tomorrow be like? We are entitled to some glimpse of it, even if it calls for imaginative scholarship to provide it.²

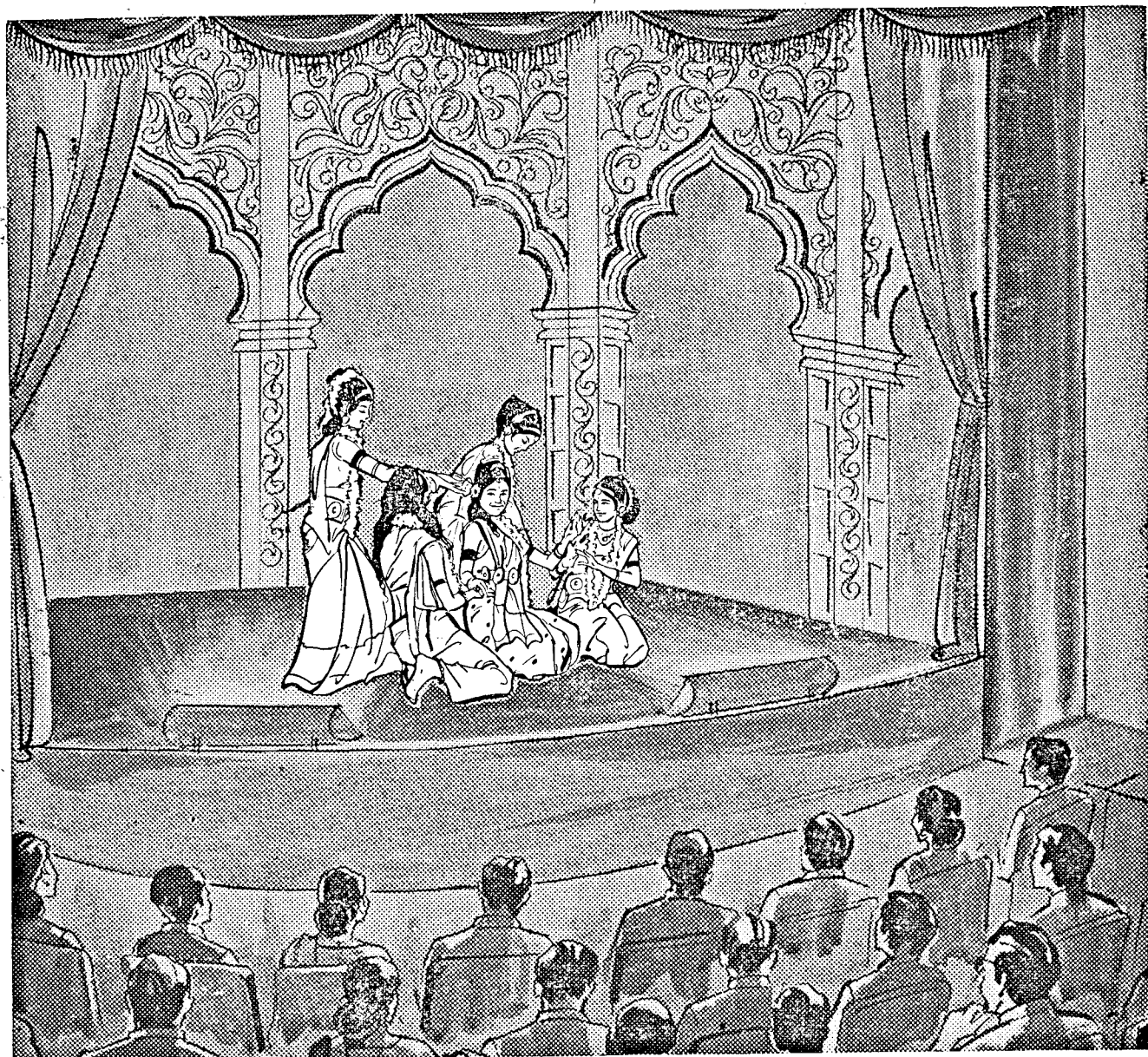
NOTES

- 1 There is a possibility of confusion here as Lynch calls Sanskritisation a cultural process which it no doubt is. I am referring to broad differences between different generations of scholars and different styles of scholarship.
- 2 There is frankly no attempt to review all the articles separately and individually. Many excellent

pieces are left out — the omissions are not invidious. A loosely conceived book can yet hang together but a review of it is a different matter. The limitation is mine and my apologies to the omitted authors who include all the three editors — James Silverberg, Milton Singer, and Bernard Cohn — and the senior anthropologist, David G Mandelbaum.

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- Albinski, Henry S: Politics and Foreign Policy in Australia — The Impact of Vietnam and Conscription; Duke University Press, 1970; pp xi+238; \$ 8.
- Bhattacharya, Mohit: Essays in Urban Government; World Press, 1970; pp ix+170; Rs 15.
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TATA STEEL

Social Background of Trade Union Leaders

Jaspal Singh

The object of this paper is to explore some similarities and differences amongst trade union leaders in terms of a set of variables pertaining to their social background.

The intention is to ascertain how and why these characteristics promote or hinder occupation of the role of a leader.

[The author is thankful to C Rajagopalan for valuable supervision and E K Scheuch for extending facilities to complete this work.]

THE data presented here were collected during May-December 1967, through personal interviews with 300 leaders, representing 134 major (having a membership of 100 or more) unions in seven towns of Punjab and the neighbouring Union Territory of Chandigarh. The unions included here represent industrial workers, white-collar employees, as also self-employed workers such as rickshaw-pullers and railway porters. Employers' organisations are, however, excluded. Presidents and General Secretaries are regarded as leaders. It is a saturation sample, representing almost entire coverage of the universe. Insofar as the situation in Punjab is representative of that in the neighbouring States too, the present is a cluster sample of trade union leaders in India.

Presentation of Data

The variables in terms of which the analysis of social background has been undertaken are no doubt selective. The selection has been made keeping in view the broad features of Indian society as well as certain other variables which are generally considered to have a direct bearing upon the role of a leader. These include: sex, age, kinship, caste, religion, regional background, education, occupation and income, etc.

(1) *Sex*: All except 0.7 per cent of the leaders in the present sample are males. Of the two female leaders, one is the wife of an erstwhile Minister and the other is the daughter of an educationist-politician. She is also herself a member of the legislative council. Thus, males predominate in our sample and there are only a few exceptional cases of women leading trade unions.

(2) *Age*: It is often held that young people are not generally attracted to the position of trade union leader, especially after Independence, probably because of a general decline in idealistic orientation. Our data, however, do not support at least the antecedent view.

In our sample 44.6 per cent of the leaders are 35 years of age or below. Those belonging to the age-group 36-50 work out to 45.1 per cent. Only 10.3 per cent are above the age of 50. The median age of the respondents in our sample is 37 years. Thus Punjab has a larger proportion of young leaders as contrasted to the area included in Puneekar and Madhuri's study.¹ Old age being an important consideration for acquiring leadership in traditional social institutions like caste panchayats, the younger age of the respondents suggests the modernising orientation of the unions.

(3) *Kinship*: Most of the leaders in our sample, viz, 87.0 per cent, are married and their wives are living. The remaining 13.0 per cent have either never married or are widowers/divorcees. A median interviewee was 23 years old at the time of his/her first marriage. Those having gone into wedlock at age 30 or above, i.e, 7.9 per cent, can be labelled as characterised by late marriages.

As many as 47.6 per cent identified themselves as coming from families with average economic condition, 30.4 per cent from poor families and 12.5 per cent from very poor ones. On the other hand, 8.1 per cent come from well-to-do and 1.4 per cent from very well-to-do families. If the income of a trade union functionary is too low to enable him to feed, clothe and house his dependants well, he is likely to face strain and conflict between his role as a bread-winner of his family and his role as a functionary in a labour organisation. This may also affect his efficiency as a leader. The likelihood of this is more in unions where the income of the leaders is too low to support their dependants. Of the married leaders, only 6.5 per cent have supplementary income from full-time, and 3.8 per cent from part-time, employment of their wives. These jobs include: tailoring at home, spinning, sweeping in

private houses, etc. In the remaining 89.7 per cent cases the wives are dependent on their husbands. In the case of 78 per cent of the leaders, they have one or more dependent children besides the wife. Only 12.7 per cent of the leaders have employed children. As many as 33.3 per cent of them have a dependent mother, and in 18.7 per cent cases their father is also a dependant on them. By and large our respondents are characterised by close family ties.

As many as 52.3 per cent families are pleased or highly pleased with the respondents' trade union activities. In the remaining 47.7 per cent cases they are either displeased or highly displeased.² No wonder then that a middle-aged, married insider leader, with a fully dependent wife, has to contend against the unfavourable reaction of his family when he spends a lot of time (20-49 hours a week) on trade union work, and is thus divided between his family and the union. This is a special problem for a first generation trade unionist belonging neither to a lower class nor to a lower caste. That they are torn between the family and the trade union is evident when it is seen that 79.3 per cent of those who would not like their son to be a trade unionist, are marked by adverse reaction of their families to their own trade union activities.

(4) *Religion*: Religious composition of the leaders shows that there are nearly two Hindus for every Sikh, the remaining 1.0 per cent being Christians.

It should be pointed out here that several respondents did not like even to speak about religion and caste, saying that these are irrelevant for trade unionists. They had to be persuaded hard to divulge this information. A supplementary attempt to rank castes on a prestige-scale was abandoned midway, because after initial refusal several judges put forward claims to their own caste being at the top of the social hierarchy. From the very fact,

therefore, that the extent of response on caste and religion is higher than in comparable studies it should not be concluded that our respondents are more caste-ridden or "communal-minded" than in other parts of India.

(5) *Caste*: Although this institution is weaker in Punjab as compared to the rest of India, especially amongst non-Hindus, it is a major principle of social differentiation entailing important social consequences. The caste background of the leaders is presented in Table 1. Khatri, Arora, Bania, Kayastha, Bhatia have been classified here as trading castes. Jat, Saini, Labana, Gujjar, Girth, Ahir and Kamboh are agricultural castes. Ramgarhia, Lohar, Suniara are artisan castes. Brahman, Khatri, Harijan, Arora, Rajput and Bania constitute the bulk of Hindu trade union leaders. Jat, Ramgarhia, Harijan and Saini constitute the bulk of Sikh trade union leaders. There is a clear indication that Brahmans and trading castes amongst the Hindus, and agricultural castes amongst the Sikhs predominate amongst the trade union leaders in Punjab. The lower Harijan and artisan castes find a lower representation, especially in the case of Hindu artisan castes.

(6) *Region*: Table 2 shows that 7 per cent of trade union leaders are from outside the Punjabi-speaking region.³ Of these, 2.3 per cent are from Uttar Pradesh, 1.0 per cent each from Haryana and Kashmir, 0.7 per cent from pre-1966 Himachal Pradesh. Delhi, Rajasthan, Bihar, Bengal, Kerala and Nepal each account for 0.3 per cent. The election of persons from faraway regions as leaders might suggest that trade unions are not much fettered by particularistic regional considerations. But this is not true because the proportion of migrants from other States in Punjab's urban working force is larger than this 7.0 per cent representation amongst the union leaders. Added to this is the fact that such migrants are more amenable to the appeal of occupational ties, and a greater percentage is organised in trade unions, than the local inhabitants. The excess of persons from Majha and Doaba regions could be explained in terms of the location of most sample towns within these regions, but for the fact that the percentage of refugees from Lahnda region in the working force is much higher, though dispersed in several towns rather than concentrated homogeneously. In other words, region of origin does play a part in recruitment as a trade union leader.

TABLE 1: RESPONDENTS CLASSIFIED ACCORDING TO RELIGION AND CASTE

Caste Category	Religion			Total	
	Hindu	Sikh	Christian	No	Per Cent
Trading	74	14	—	88	29.3
Agricultural	22	50	—	72	24.0
Brahman	69	—	—	69	23.0
Harijan	21	13	—	34	11.3
Artisan	2	20	—	22	7.3
Miscellaneous	5	5	—	10	3.3
No response	—	2	3	5	1.7
	193	104	3	300	99.9

(7) *Rural-urban background*: About two-thirds of the interviewees, 65.3 per cent, come from the rural areas and 34.7 per cent from the urban areas. It may be pointed out here that the classification between rural and urban is based not on the respondents' self-description, but on due verification by the investigator, in accordance with the Census definition for 1961. While 57 per cent of the Hindu leaders are of rural origin, among the Sikhs this percentage is as high as 80.7.

(8) *Length of residence*: Table 3 shows that the length of residence in a particular town does seem to have association with acquiring leadership in a union. While 44.7 per cent had been living in the same town before 1947, only 13.2 per cent had been in the same town five years or less before becoming trade union leaders. It is possible that even these new migrants had been in touch with their central organisations before migrating to the towns in which they lead the unions.

(9) *Travel abroad*: Travel abroad is a positive qualitative feature bearing on role performance as a leader. It is also an indicator of higher social status. Information at our disposal shows that 13.3 per cent respondents were either born abroad, or have travelled abroad: on official duty, as tourists, for business purposes, or with some delegation.

(10) *Education*: The education of the interviewees varies from illiteracy (4.3 per cent) to a post-graduate degree (5.7 per cent). The highest percentage, however, is comprised of less than Matrics (38.7 per cent), followed by Matriculates (28.0 per cent), with College/Polytechnic education (23.3 per cent). The percentage of literate and educated persons in the entire population of unreorganised Punjab is 26.7. This rises to 34.7 per cent in the case of males.⁴ Thus the trade union leaders, 95.7 per cent of who are literate, are far better educated than the general population of Punjab.

Compared to 2.0 per cent in Mathur's study and 9.7 per cent in Puneekar and

TABLE 2: RESPONDENTS CLASSIFIED ACCORDING TO REGION OF ORIGIN

Region	Per Cent
Majha	28.3
Doaba	24.7
Malwa and Powadh	15.0
Kangra	2.7
Total (East) Punjab	70.7
Western Lahnda	13.7
North-western Lahnda	5.7
Pothowar	1.7
Multan	1.3
Total Lahnda	22.4
Rest of India, Nepal	7.0
Number	300

TABLE 3: RESPONDENTS CLASSIFIED ACCORDING TO STAY IN PARTICULAR TOWN (Per Cent)

Born there	13.9
Living there before 1947	30.7
Came during 1948-57	25.7
1958-62	13.9
1963-65	10.4
1966	2.1
1967	0.7
Commuter	2.5
Number	280

Madhuri⁵ there are 2.7 per cent persons with LL B degrees in this sample. Another 1.0 per cent could not complete their legal education to be eligible for degrees.

As to the college background of the respondents, 16.1 per cent of those having ventured beyond school level have studied in Khalsa College, Amritsar,⁶ and 10.3 per cent in Law College, Chandigarh/Jullundur. Similarly, 9.2 per cent have studied in Hindu College, Amritsar, 9.2 per cent in Mahindra College, Patiala, and 5.7 per cent in DAV College, Lahore. No other college has contributed more than 2.3 per cent to the ranks of union leaders in Punjab. Thus, certain colleges have acted as training grounds for trade union leaders. It seems that these colleges have also been foremost in student-unionism and political activities.

The younger leaders have higher education. This is no doubt due to improve-

TABLE 4: WHOLE-TIMERS AND PART-TIMERS CLASSIFIED ACCORDING TO INCOME

Income (Rs/month)	Whole-timers	Part-timers	Total
50-99	17.1	3.8	5.3
100-149	39.0	11.9	15.8
150-199	26.8	25.0	25.6
200-249	9.8	15.2	14.4
250-499	4.9	30.7	27.0
500-749	2.4	9.8	8.8
750+	—	3.7	3.2
Number	41	244	285

TABLE 5: AFFILIATION-WISE DIFFERENCES

	AITUC	BMS	INTUC	Total
Median age (years)	38	35	40	37
Unfavourable family	52.8	31.9	48.5	47.7
Well-to-do family	3.3	3.7	5.9	9.5
Age at marriage (years)	22	20	22	23
Without wives	18.0	25.9	5.6	13.0
Religion (Hindu)	52.5	88.9	67.6	64.3
Caste (Brahman + Harijan)	32.8	33.3	50.7	34.9
(Agricultural + Artisan)	45.9	22.2	22.5	31.8
(Trading)	16.4	40.8	21.1	29.8
Rural	78.7	59.3	70.4	65.3
Education (Matric+)	31.1	43.2	46.5	57.0
Knowledge of English	57.9	66.7	72.7	77.6
Income (Median, Rs/month)	144	71	180	204

ment in the level of education of the general population during the preceding decades.⁷

(11) *Languages known*: Only 22.4 per cent of the respondents do not know English language. As many as 10.5 per cent have broadened their mental horizons by acquiring knowledge of foreign languages like Arabic, German, Persian, Pushtu and Russian. Many of those who are not even Matriculates have acquired high proficiency in speaking, reading and writing English. It is not surprising that knowledge of English helps even in becoming a trade union leader, because until recently English has been the language of administration, and all laws and governmental reports were available in English only. The impact of introduction of Punjabi (just after the completion of this study) on trade union leadership should be interesting to follow up. On the whole, judged in terms either of formal education or knowledge of languages, the interviewees by and large represent an educated group.

(12) *Income*: Table 4 classifies the respondents according to affiliation and income from occupation at the time of the study. It varies from a minimum of Rs 60 per month to a maximum of Rs 1,000, median being Rs 204. It will be seen that 39.0 per cent of the leaders earn Rs 250 or above, and 5.3 per cent less than Rs 100. In Mathur's study 10.7 per cent earn above Rs 250 per month and 15.2 per cent Rs 100 and below.⁸ This establishes the relatively

better economic condition of the trade union leaders in Punjab.

Coming to differences between unions affiliated to different central trade union organisations,⁹ Table 5 shows the better-economic condition of family, higher income, education, percentage of English-knowing and age at marriage in the aggregate than in AITUC, BMS or INTUC. This is due to the presence of several office-bearers from white-collar unions in the aggregate. AITUC leaders are preponderantly rural, Sikhs, from agricultural and artisan castes, marked by unfavourable reaction of families towards their participation in trade union activities. INTUC stands apart from others with respect to higher age, higher percentage of Brahmans and Harijans, as well as of those encumbered by a wife. The most marked differences of social background are not between AITUC and INTUC, but between INTUC and BMS. BMS leaders are oftener than others younger, urban, trading caste, Hindu, with lower age at marriage and favourable reaction of family towards their participation in trade union activities. Their younger age at marriage suggests that they come from traditional families, who are favourable to their members' participation in activities which, in spite of the lower economic rewards, are looked upon more as voluntary services in religious RSS (Rashtriya Swayamsevak Sangh) with which BMS is closely associated, rather than in modern secular trade unions.

The most visible differences between

outsiders and insiders are those with respect to age and family encumbrances. A median outsider is older than an insider by five years. The percentage of unmarried, widowed/divorced is 11 for insiders and 30.6 for outsiders.

Table 6 shows that at higher level of leadership the lower castes find only a limited representation. At the lower end lie plant level leaders with a larger representation of younger, agricultural caste, Sikh, from poorer families. At the other extreme we find a larger proportion of middle-aged, trading caste, Hindus, from well-to-do families, and advantaged by foreign travel.

Summary and Conclusions

We are now in a position to bring together various threads in the above discussion.¹⁰ It was seen that there are very few exceptional cases of women leading trade unions in Punjab. Median age of a trade union leader is 37 years and 44.6 per cent are upto 35 years in age. As many as 87 per cent being married at a median age of 23 years, 89.7 per cent of the married leaders having fully dependent wives, 78.0 per cent having dependent children, and some having other dependent relatives as well, our respondents are by and large characterised by close family ties. No wonder then that when they spend large amounts of time on union activities, they have to contend against unfavourable reaction of families. This is a special problem for first generation trade unionists, belonging neither to a lower class, nor to a lower caste.

Judged in terms either of formal education, knowledge of language, or travel abroad, trade union leaders have better awareness and exposure to the influence of foreign cultures, as compared to the general population. Certain colleges have tended to act as nurseries for union leaders. In remarkable contrast to the international situation, stands the observation that while in countries like USA a union leader earns more than the ordinary members, in Punjab a worker's income declines considerably, notwithstanding the fact that it is low enough in the first instance, when he chooses to become a full-time union functionary. This discourages the entry of those who might adopt trade unionism as a career, and paves way for the entry of those with their main source of economic reward lying elsewhere, or economic needs being limited in view of their being unencumbered by family responsibilities.

It is true that the institution of caste in Punjab is weaker than in the rest of

India. The fact that particular castes within specified religions find higher representation in some trade union federations and correspondingly lower representation in others, seems to suggest that such an association would be much more visible in the rest of India. Similarly, if not being a local man does act as a disqualification for recruitment as a leader within a unilingual State, this characteristic should have a much greater significance at all-India level and in metropolises and industrial centres outside Punjab State, where the working force is more heterogeneous.

Although the trade union movement in Punjab is more than 50 years old, it has not yet established a permanent foothold. Trade unions rise during crises and are soon forgotten in normal times, till a new crisis arises. In this respect they resemble a traditional *jatha* or *lashkar* assembled on an *ad hoc* basis to face an external attack, rather than a permanent disciplined defence force. Unfavourable reaction of families, lower income, larger percentage of unmarried and widowed/divorced persons, (imprisonment by government, victimisation by employers)¹¹ show that in the area under study a trade unionist's is not a socially valued role. It is occupied by younger men, marked by late marriages, modern education, and exposure to the impact of foreign languages and cultures. Insofar as our respondents are not only trade unionists, but also leaders, they have to fall back for support upon the constellation of their kinship, caste, religious, and other traditional ties. Comparatively favourable attitude of families in respect of BMS leaders, in spite of their lower income, is a significant cue for concluding that they are able to legitimise their participation in union activities by fitting the same in a religious/political framework. In other words, the association between social background and occupation of leadership role shows that religious, caste, kinship and other traditional institutions are not so irrelevant for unions as some of their leaders would like to believe. In other words, unions retain several characteristics of the traditional social structure, while trying to superimpose thereupon some modern practices imported from abroad. Consequently, we have neither tradition, nor modernity, but a transitional phase. Between these two worlds, if trade unions are legitimate only during a crisis, if participation in them has to be justified in terms of traditions, and if the role of a trade union leader is not socially valued, why do our respon-

TABLE 6: DIFFERENCES, ACCORDING TO LEVEL OF LEADERSHIP

	Plant	Local	District	State
Median age (years)	33	39	35	39
Religion (Hindu)	58.6	66.7	62.8	70.0
Caste (Agricultural)	31.0	21.4	23.3	23.3
(Trading)	20.7	27.8	33.7	40.0
(Harijan + Artisan)	13.7	28.6	12.8	3.3
Rural	74.1	59.5	62.8	80.0
Been abroad	8.8	13.8	16.2	17.2
Education (Metric+)	50.0	59.5	79.0	76.7
Well-to-do family	1.7	6.6	12.8	26.7
Favourable reaction of family	40.8	64.2	44.9	46.6

dents occupy this role? In fact, for most of them it is only a side-role. As far as their key roles are concerned, they are either politicians, or full-time employees in some factory/office, etc. Their deviation away from their main roles can be explained in terms of Durkheim's theory of deviant behaviour. Deviance from norms plays an important part in bringing social change. It anticipates, and prepares the way for the emergence of new norms. "According to the laws of Athens, Socrates was a criminal, and [death] sentence upon him was justified. No doubt his crime, his independent thought, was useful, not only for humanity but also for the city of Athens. Then he chose to prepare way for a new moral and a new belief, permitted by the citizens of Athens, but disallowed by their traditions, which were no longer in harmony with the conditions of their existence. And Socrates was by no means the only one; he repeats himself in the history periodically."¹² Seen in this light, the trade union leaders are agents of social change.

Notes

1. Punekar, S D and Madhuri, S: "Trade Union Leadership in India — A Survey", Lalvani Publishing House, Bombay, 1967, p 41.
2. *Ibid*, p 128. Their categories are somewhat different, i.e., favourable (42.3 per cent), tolerant (20.2 per cent), indifferent (5.5 per cent), unfavourable (28.4 per cent), and no response (3.6 per cent).
3. For the present analysis, the respondents' origin was traced to eight linguistic regions of undivided Punjab on the basis of Grierson's analysis. See Grierson: "On Punjabi", Punjab Government Languages Department, Patiala, 1961.
4. Census of India, 1961, Vol XIII, Part II-A and Primary Census Abstracts.
5. Mathur, A S: "Trade Union Elite in India", Institute of Social Sciences, Agra, 1967, p 7; Punekar and Madhuri: *op cit*, p 58.
6. Baldev Raj Nayyar, basing his observations on field-work in 1961-62, remarks about the MLAs in Punjab, "A significant proportion of both Akalis (18 per cent) and Congress (21 per cent) Sikhs had some part of their education at Khalsa College of Amritsar. This pioneer Sikh institution for higher learning has been the main source of educated, political leadership among the Sikhs". "Minority Politics in Punjab", Princeton University Press, Princeton, NJ, 1966.
7. Between the decennial Censuses in 1951 and 1961, the percentage of literacy for the general population (all ages) rose from 15.2 to 24.2 in unreorganised Punjab. Source: Census of India, Paper No 1 of 1962.
8. Mathur, A S: *op cit*, p 13.
9. AITUC=All India Trade Union Congress; BMS=Bhartiya Mazdoor Sangh; INTUC=Indian National Trade Union Congress.
10. Though not strictly comparable, the social background of MLAs of the 1957-62 session in Punjab (+ Haryana, etc) should be interesting to note here. Religious composition shows that of the 154 MLAs, 56 per cent were Hindus, 41 per cent Sikhs, and 2 per cent Muslims. Only 6 per cent were women. An average MLA was born in 1913. Caste-wise, 37 per cent were Jats, 28 per cent Harijans, 9 per cent Brahmans, 5 per cent Khatri, 4 per cent Bania and 2 per cent Arora. Coming to education, 4 per cent had no formal education, 17 per cent were below high school, 26 per cent had completed high school, and 48 per cent had some college education, including 6 per cent having a post-graduate degree. As many as 90 per cent had received education in Punjab, but 19 per cent had additionally or solely studied abroad. Nayyar, B R: *op cit*.
11. As many as 64.3 per cent interviewees complained about victimisation against themselves and/or others in their unions; 40.0 per cent have been imprisoned, at least once.
12. Durkheim, E: "Rules of Sociological Method", p 160. The page number refers to the German edition, edited by Rene König, Luchterhand, Berlin, 1965.

Household Holdings in Punjab

An Analysis

S K Sanyal

Family farms are very much in existence in India even though it was the less relevant concept of the operational holding that was adopted in the past two agricultural censuses.

As these family farms undergo changes in size with the passage of time, a study of the transition of these farms from one class of operated area to another requires data of a dynamic type. The progression of each class of farms has to be traced over a sufficiently long period of time.

The first part of the paper examines the relations that emerge between 'land owned' and 'land operated' and 'land leased in'. The second part deals with the contentions put forth by Chayanov in developing his theory of 'labour consumer balance'. Punjab was selected for this study because the proportion of land leased in to the total operated area there is one of the highest in India.

EVEN though in the past two agricultural censuses, the concept of an operational holding was adopted at the expense of a more realistic concept of 'household holding', the fact remains that family farms (or household holdings) are very much in existence in India. These farms undergo changes in size with the passage of time. A study of the transition of farms from one class of operated area to another needs data of a dynamic type. One has to trace the fate of each class of farms over a sufficiently long period of time. Chayanov¹ has noted the importance of such studies while indicating the presence of tangled demographic processes in the dynamics of farms. While a case for such studies exists in India, in absence of such data, we have to satisfy ourselves with the static data or a cross-sectional analysis. We can observe, nevertheless, that at any point of time the composition of family farms is still a heterogeneous one, revealing a subtle relation between 'land owned' and 'land operated'. The first section of this paper examines these relations for households belonging to different classes and also the relation between 'land owned' and 'land leased-in'.

Chayanov's theory of peasant farming, despite its limitation of being applicable to family farms employing no hired labour, is particularly interesting because in developing his theory of 'labour consumer balance' he has put forth some contentions worth examining in the Indian context. The second section of this paper is an empirical verification of some of these contentions.

DATA AND DEFINITIONS

Punjab was selected for this study because the proportion of land leased-in to the total operated area is one of the highest in India. The schedules of inquiry filled up during the land hold-

ings survey of the seventeenth round of the National Sample Survey (1961-1962) pertaining to two sub-samples were analysed at the micro level. The sample consisted of 1,419 households of the rural sector spread over 92 sample villages.

The usual NSS definition of household was adopted in the above inquiry, i.e., a group of persons who usually live together and take meals in a common kitchen. A person was considered as working if he/she was engaged in gainful activities either as employer, employee, single worker or household worker. Every member of a household was categorised as working or non-working according to this definition and so members of the household engaged in non-agricultural pursuits were also considered in the analysis.

In Russian budget studies, as noted in Chayanov's book, the consumer units and worker units had been obtained for different ages of persons. While no such study is available with respect to the Indian counterpart about the number of workers, the available studies on scales of equivalence as regards consumption of persons of different age-sex groups are not all comprehensive and have their limitations. Taking into account thus the different available scales (e.g., the League of Nations scale giving the calorie co-efficients, the Aykroyd scale, the Lusk scale and the Chowdhury scale² prepared for the rural sector on NSS consumption data) the following formula was chosen to compute the number of consumers in a household:

$$c = \text{consumers} = 0.2 C_{0-1} + 0.3 C_{2-3} + 0.4 C_{4-5} + 0.5 C_{6-7} + 0.6 C_{8-9} + 0.7 C_{10} + 0.8 C_{11-14} + AM_{15-55} + 0.8 AF_{15-55} + 0.8 O_{55+}$$

where C denotes children, AM adult males, AF adult females and O old persons; age groups are given below. The

ratio c/w (being the ratio of consumers to workers in the household) was obtained for each household.

OWNERSHIP AND OPERATION

The data on ownership particulars in the survey was obtained as on the date of survey and the particulars of land operated pertained to the last agricultural year. Hence in the following analysis we assume that the ownership of land had not undergone substantial changes during the gap of about one year.

The rural households of Punjab are shown in Table 1 by size groups of land owned and land operated in the form of a percentage distribution for each size class of land owned. It would appear that even in a cross-sectional analysis like this, owned and operated area of households differ considerably. Each of the land-owning groups display considerable flux in terms of operated areas indicating movement on either side. The diagonal of bold figures in the Table shows the proportion of households retaining on an average same area for operation as owned, but for some households the effect of grouping might have camouflaged the leasing in and leasing out that might have taken place without effecting intra-group movement. The triangle below the diagonal discloses the proportion of households who have chosen either not to operate a part of their owned lands or to lease out partially — the first column in the Table gives the proportion of households not operating their owned lands. The triangle above the diagonal gives the proportion of households who have increased their ownership holdings by renting in land with the first row of 'landless' class operating purely with rented land.

It will be seen that very few of the petty landowners owning less than an acre retained the same area for opera-

TABLE 1: PERCENTAGE DISTRIBUTION OF HOUSEHOLDS BY SIZE CLASSES OF LAND OPERATED FOR EACH SIZE CLASS OF LAND OWNED

Land Owned (acres)	Land Operated (acres)	Not Operating	Upto 0.99	1.00-2.49	2.50-4.99	5.00-7.99	7.50-9.99	10.00-14.99	15.00-19.99	20.00-24.99	25.00-29.99	30.00 and Above	All Households
Landless		74.6	2.2	3.9	3.2	3.0	3.9	4.7	2.0	1.2	0.5	0.8	100.0
Upto 0.99		69.5	6.7	6.1	5.2	7.1	2.7	1.7	0.5	0.2	0.2	0.1	100.0
1.00-2.49		21.3	5.1	37.0	14.2	6.2	8.5	4.3	2.8	0.4	0.2	—	100.0
2.50-4.99		16.4	—	2.6	48.6	9.2	8.1	10.9	3.1	0.2	0.2	0.7	100.0
5.00-7.49		8.6	2.9	3.4	2.9	47.7	10.8	17.9	2.7	2.2	0.2	0.7	100.0
7.50-9.99		23.1	2.4	2.4	2.4	3.7	47.0	6.9	8.5	3.2	0.4	—	100.0
10.00-14.99		14.7	—	0.3	1.6	7.2	2.9	59.0	6.5	5.2	2.0	0.6	100.0
15.00-19.99		8.0	12.1	2.2	1.3	0.9	3.1	12.9	50.5	4.5	0.9	3.6	100.0
20.00-24.99		16.5	—	—	—	—	0.9	14.7	5.5	49.5	9.2	3.7	100.0
25.00-29.99		24.9	—	—	—	—	—	1.4	10.2	5.8	43.5	10.2	100.0
30.00 and above		8.0	—	—	—	4.3	—	2.7	8.0	4.4	4.4	72.5	100.0

Source: Landholdings Inquiry, 17th Round NSS, 1961-62.

tion — about one-fourth have leased-in land and 70 per cent are not operating. More than one-third of the households in size groups of owned land between an acre and 7.49 acres increased their areas for operating. Excepting two size groups, half or less than half of the households in each size group of land owned retained the same area for operation. The proportion of households leasing out a part of their owned land increases progressively with the holding size till it attains a peak-value for ownership group 15.00-19.99 acres.

It is, however, the 'not operating' class among the landowners which has some interesting features. We come across a very high figure of 69.5 per cent for the size group upto 0.99 acre. An analysis of the breakdown of this group gives this percentage of 'not operating' to total households to be: 85 per cent for 0.01-0.04, 49 per cent for 0.05-0.09, 52 per cent for 0.10-0.49 and 0.0 per cent for 0.50-0.99 acre. It seems that a bulk of the households owning 0.01-0.04 do not operate at all and such a class is totally absent for households owning land between 0.5 to 0.99 acre.

In fact, we can demarcate three more points in the entire range of the size of household ownership holding. The first point is 7.50 acres, i.e., the size upto which the tendency to rent land is most pronounced and the tendency to lease out entirely is very high initially but declines till a minimum value of 9 per cent is reached. This proportion shoots up again from this point and then declines till 20 acres is reached where it touches a minimum of 8 per cent and after which it again increases. Another minimum is reached for 30 acres.

These four 'points' identifying the groups 0.50-0.99; 5.00-7.49; 15.00-19.99; 30.00 and above may indicate roughly the optimum sizes for the four classes of peasants for just above each of the first three points, the proportion of households 'not operating' land increases abruptly.

In order to investigate the extent of leasing-in of land by households owning different amounts of land, only the households who leased-in some land were picked up. Table 2 shows the percentage of such households belonging to different leased-in classes for each size class of land owned.

It is significant to note that a good proportion of households in the 'landless' and petty farmers groups have taken on rent land exceeding even 5 acres. The spread of the households renting land over different size classes of land leased-in shows that household ownership holding is not very much related to land leased-in. While a greater proportion of medium and big landlords rented in lands belonging to higher size groups of land leased-in, the proportion leasing in small pieces of land is also not insignificant. For example, 26 per cent of households leasing in land, belonging to the land owned group 25 acres and above, leased-in 1 to 2.49 acres.

II

While the essential point in Chayanov's theory is that each family attains an equilibrium between the satisfaction of basic needs and drudgery of labour, it is the use of the measure c/w (the ratio of consumers to workers in the family) which is striking, for it measures the pressure of consumer demands. The energy developed by a worker on a family farm is stimulated

TABLE 2: PERCENTAGE OF HOUSEHOLDS LEASING-IN LAND BY SIZE CLASSES OF LAND OWNED

(acres) Land Owned	Land Leased In (acres)	Upto 0.99	1.00-1.49	1.50-2.49	2.50-3.49	3.50-4.99	5.00-7.49	7.50-9.99	10.00-14.99	15.00 and Above	Total Households Leasing-In Land
Landless		8.7	9.2	6.0	8.2	4.3	12.0	15.2	18.5	17.9	100.0
Upto 0.99		6.6	4.2	20.8	7.5	15.0	28.5	7.3	6.2	3.9	100.0
1.00-2.49		17.8	5.6	21.3	13.7	4.6	14.2	7.6	11.7	3.5	100.0
2.50-4.99		3.4	4.6	9.1	12.0	12.6	20.6	21.1	10.9	5.7	100.0
5.00-7.49		13.2	2.6	7.4	10.0	9.5	26.8	9.5	16.3	4.7	100.0
7.50-9.99		11.6	—	4.4	20.3	8.7	20.3	20.3	1.4	13.0	100.0
10.00-14.99		4.1	4.2	9.4	3.1	9.4	21.9	20.8	22.9	4.2	100.0
15.00-19.99		3.6	10.9	5.5	—	16.4	5.4	16.4	29.1	12.7	100.0
20.00-24.99		3.8	7.7	7.8	7.7	11.5	19.2	—	23.1	19.2	100.0
25.00 and above		—	11.9	14.2	—	2.4	26.2	4.8	9.5	31.0	100.0
All sizes		8.5	5.1	13.6	9.4	10.6	21.8	11.6	12.1	7.3	100.0

Source: Landholdings Inquiry, 17th Round NSS, 1961-62.

TABLE 3: AVERAGE CONSUMER/WORKER RATIO FOR HOUSEHOLDS BELONGING TO DIFFERENT HOUSEHOLD SIZE GROUPS BY SIZE OF LAND OPERATED

Land Operated (acres)	Average Consumer/Worker Ratio for Household Size Group						
	1-2	3-4	5-6	7-8	9-10	11 and Above	All Sizes
Not operating	0.98	1.81	2.45	3.10	2.35	2.64	2.16
Upto 0.99 acre	1.31	2.05	3.19	3.34	2.29	2.43	2.68
1.00-2.49	0.87	1.68	2.81	2.96	3.33	1.55	2.27
2.50-4.99	1.15	1.76	2.56	3.00	2.97	2.23	2.36
5.00-7.49	1.42	1.69	2.39	2.65	2.40	2.74	2.25
7.50-9.99	1.15	1.86	2.18	2.72	2.82	2.55	2.34
10.00-14.99	1.27	1.87	2.19	2.60	3.03	2.51	2.38
15.00-24.99	1.37	1.69	2.23	2.58	2.39	2.17	2.25
25.00 and above	1.55	1.87	2.22	2.17	2.24	2.44	2.24
All Sizes	1.14	1.79	2.38	2.75	2.62	2.36	2.29
Number of Sample Households	108	256	388	336	183	148	1419

Source: Landholdings Inquiry, 17th Round, September 1961-July 1962.

by consumer demands and as they increase the rate of self-exploitation of peasant labour is forced up. Chayanov has demonstrated this with the help of Russian data. The volume of economic activity, he has again shown, is not at all dependent on the number of workers but depends on the number of consumers. In developing his concept of "demographic differentiation", he has set forth a few very significant contentions, e.g., "the classification by sown area is to a certain extent a classification by family age" and "those that sow small areas consist of young families with a large number of children". At another place he has shown that there is a tendency in the family farm to develop its land area to the optimum by renting land. We now proceed to examine these contentions for Punjab.

CONSUMER-WORKER RATIO

Table 3 presents a cross-sectional view of the structure of rural households in Punjab as regards c/w ratio by six household size groups and nine land operated classes. One limitation about this ratio is that in the absence of any equivalence scales for workers of different age groups, working units have been taken to be the same ignoring the age and sex of the worker. And this ratio may therefore, be slightly less than the true value. If we assume that fluctuations in the value of working units are uniform for all households, there will be only a linear shift in the value of c/w if the true working units had been taken, particularly when the data have been analysed for finer groups of household size, as in Table 3.

The distribution of sample households according to household size groups reflects considerable variation in the household size among the rural house-

holds. Generally, the ratio c/w attains a peak value for household size group 7-8 or 9-10 for different land operated classes. The pressure of consumer demands is, however, most for small landholders operating upto 2.5 acres and for the destitute households.

Results of the past land-holdings inquiries have established that larger holdings are associated with bigger household size. But the above Table shows no evidence that larger holdings are faced with greater consumer demands.

Again, the behaviour of c/w over the different land operated classes is irregular for all the household size groups. If we consider the marginal 'all sizes' column, it would seem that there is very little variation between the land operated classes.

According to Chayanov, most peasant families are in a position either to work more hours or to work intensively, sometimes even both and the extent to which the members of the family actually work under a given condition, he called the degree of self-exploitation of family labour (*vide* Thorner's article³ p xvi). The energy developed by a

worker on a family farm, according to Chayanov, is stimulated by family consumer demands and as they increase, the rate of self-exploitation of peasant labour is forced up. If this is presumed to be true, an indirect conclusion from the above Table may be that the workers in lower land classes have a higher rate of self-exploitation compared to the big landholders.

LAND LEASED-IN AND CONSUMER-WORKER RATIO

The average amount of land leased-in was obtained for the households reporting leased-in land grouped according to c/w ratio and size of land operated. The data is presented in Table 4. It is easily seen that for a particular c/w ratio, the land leased-in per reporting household increases with the holding size.

The pressure of consumer demands, however, is not the determining factor in the decision to rent land, as for individual classes of land operated whether small or big, the average amount of land taken on lease attains, in general, a maximum for c/w group 1.00-1.49. Although in the extreme group of 3.00 and above, it increases but in most of the size-classes of land operated, it is lower than that for 1.00-1.49.

If land taken on lease is viewed as a means to supplement the peasant household's income to meet increased consumer demands, the data do not reveal any such tendency, whether he be a small or a big peasant. Let us assume again, that household workers are not sufficient in number for a high c/w and that this has been responsible for a non-increase in the amount of land leased-in with the increase in c/w ratio. While the limitation for small farmers to hire labour is obvious, the big farmers could always make it up by hiring labour. Thus the very fact that for big farmers there is even a decline in

TABLE 4: LAND LEASED-IN PER HOUSEHOLD REPORTING LAND LEASED-IN BY C/W RATIO AND BY SIZE OF LAND OPERATED

Land Operated (acres)	Land Leased-in (Acres) Per Reporting Household with c/w Ratio				
	< 1.00	1.00-1.49	1.50-1.99	2.00-2.99	3.00 and Above
Upto 0.99 acre	—	0.62	0.43	0.50	0.39
1.00-2.49	1.40	1.40	1.36	1.00	1.00
2.50-4.99	2.52	3.52	2.29	2.32	2.79
5.00-7.49	4.63	4.15	5.58	3.19	6.05
7.50-9.99	7.90	6.56	6.17	5.12	4.19
10.00-14.99	7.40	8.15	9.28	6.15	7.44
15.00-24.99	19.58	12.92	12.93	10.19	10.84
25.00 and above	11.67	20.52	19.60	13.25	19.37
All sizes	6.57	6.84	6.76	5.43	6.36

Source: Landholdings Inquiry, NSS, 17 Round, 1961-62.

TABLE 5: DEMOGRAPHIC COMPOSITION OF FARMING HOUSEHOLDS BY LAND OPERATED CLASSES

Land Operated (acres)	Percentage of Number of Persons in Age Groups						All Ages
	0-5	6-10	11-14	15-55		> 55	
				Male	Female		
Not operating	20.02	14.85	11.27	24.95	23.49	5.42	100.00
Upto 0.99 acre	13.72	20.77	13.36	24.79	23.24	4.12	100.00
1.00- 2.49	15.72	21.20	10.01	22.98	23.63	6.46	100.00
2.50- 4.99	19.28	16.30	10.20	24.75	22.41	7.06	100.00
5.00- 9.99	17.13	17.68	10.61	24.72	22.32	7.54	100.00
10.00-14.99	17.26	17.35	10.95	25.81	22.03	6.60	100.00
15.00-24.99	17.39	14.04	10.06	27.26	22.76	8.49	100.00
25.00 and above	19.22	14.52	10.16	25.68	23.80	6.62	100.00
All sizes	18.39	16.24	10.86	25.11	23.00	6.40	100.00

Source: NSS, Landholding Inquiry, 17th Round, 1961-62.

amount of land leased-in for higher c/w shows that the pressure of consumer demands is not the factor at all in the decision to rent land contrary to what Chayanov has shown in his Russian studies.

DEMOGRAPHIC COMPOSITION

Table 5 shows the demographic composition of rural households, presenting for each size class of land operated the percentages of number of persons in different age groups. It would be seen that for households not operating land, an increased proportion of children in the age-group 0-5 is observed. For small farms upto 2.5 acres, the propor-

tion in 0-5 age group is comparatively less, though an increased proportion is seen in the age group 6-10. The working population (15-55) exists more or less in the same proportion in all land operating classes.

It is striking to note that big landlords operating 25 acres or more have the same demographic composition as the destitute households. This sets at rest any effort for a 'demographic differentiation' in peasant farms that differ in operated area. It is true, nevertheless, that Chayanov developed the concept of demographic differentiation from data of a dynamic type as mentioned earlier. We can, however, very

easily conclude from this cross-sectional data that Chayanov's hypothesis that "material conditions influence family size with the force of a determinant" might not hold good in India.

Also the data relating to Punjab do not reveal what Chayanov observed in his Russian studies, i.e., "those that sow small areas consist of young families with a large number of young children and those that sow more consist of older families in which small children do not play such a great part".

In the end we may observe that the above findings are to be taken in the light of the limitations already enunciated and that owing to non-availability of the required data, analysis of results has not been always on similar lines as that of Chayanov. Nevertheless with the limitations in mind, we can perhaps broadly agree that Chayanov's contentions are not applicable for Punjab.

NOTES

- 1 Chayanov in "Theory of Peasant Economy", edited by Thorner, Kerblay and Smith.
- 2 Chowdhury, H B: "Some Estimates of Adult Equivalent Scales for Cereals Consumption in Rural India", NSS Working Paper No 49 (mimeo).
- 3 D Thorner in "Theory of Peasant Economy", *op cit*.

Armed Struggle in Southern Africa

A K Essack

While Vietnam attracts most of the attention, several protracted struggles for national liberation are taking place in Southern Africa. The nationalist movements in the Portuguese colonies of Angola and Mozambique now control large sections of these two territories. This has alarmed South Africa which has become increasingly involved, militarily and economically, in shoring up the Portuguese and the Rhodesians.

The main props of these white supremacist regimes, however, are the Western powers who are keenly concerned about maintaining their role as economic exploiters. Financial credit and arms are generously given to these regimes, conveniently forgetting the blatantly oppressive nature of the white ruling groups.

The nationalist organisations are slowly gaining ground by following the strategy of people's war. China and other socialist countries are helping these movements to gain independence for the peoples of Southern Africa.

LUANDA, the capital of Angola, was the first city built south of the equator by Europeans, being founded in 1575. Later similar towns were established in Mozambique. Yet in 1956, almost four hundred years later, when the then President of Portugal, Lopes, visited his "overseas provinces", the Governor of Manica and Sofala addressed him:

"Here we are after more than four and a half centuries engaged today more than ever on a great and successful task . . . teaching, educating and leading to a better life the rude masses of natives, disciplining their rudimentary instincts, moulding their souls in superior forms of Christianity, administering justice with affectionate understanding. Everything indicates that we are on the verge of a new era, a decisive phase in the history of our people. Everything is for the common good and aggrandisement of the mother country."

Indeed some of the words were prophetic, though not in the way the honourable Governor intended, for in 1961 the people of Angola launched an armed struggle followed by those in Mozambique in 1964. This ushered in a new era which will turn out to be decisive in the history of the oppressed people who for five hundred years have been living in semi-slavery.

In October 1961, the Indian Council of Africa held a seminar in New Delhi focusing on the plight of Africans living under the Portuguese. Those at the seminar did not share the myth of the civilising mission of the Portuguese, but exposed the brutality and inhumanity perpetrated against the colonised peoples by the Portuguese regime. B Mehta, President of the Council of Africa, summed up the feelings of many attending the conference when in opening the proceedings he said:

"The colonial problem is no longer of academic and constitutional interest, but involves the freedom and happiness of millions. The campaign of repression let loose in Angola by the

Portuguese has already cost 50,000 lives. In Mozambique the segregation of the Africans has been perfected. The Africans must carry pass-books and obey the nine o'clock rule in their movements . . .

"There is only one African out of six million holding a university degree. Less than one-tenth of 1 per cent of the African population has achieved the status of citizenship."

This seminar which received special messages from Nkrumah, Nyerere, Toure and Nasser was attended by representatives with a new outlook. They stood for armed struggle since other methods had failed. The late P G Pinto summed up this mood when he said:

"While no one would disagree under normal conditions that the non-violent method of struggle is decidedly more suitable, in the Portuguese colonies normal conditions do not exist. Under a Fascist dictatorship which shoots peaceful demonstrators for demanding an increase in wages, the alternative is nothing but violent struggle or no struggle at all."

PORTUGUESE COLONIES

Although this was said in connection with the Portuguese colonies one could with equal truth apply it to the regimes of Vorster and Smith. Today armed struggle has become the only method of struggle which all nationalist organisations in Southern Africa have accepted, whatever their other differences. The three essential features of armed struggle in Southern Africa can be summarised as: it will be a people's war, it will be long and protracted and its military strategy will be guerilla warfare.

The armed struggle has been launched or is in the process of being launched in Angola, Mozambique, Namibia (South-West Africa), Rhodesia and South Africa. Prior to the armed struggle, the three white minority regimes of Vorster, Smith and Caetano controlled and held a total area of

1,719,433 square miles of which Angola and Mozambique alone cover about 800,000 square miles. This vast area has been held by less than 4 million whites of which 3½ million are accounted for in South Africa alone. The Africans under their rule number over 30 million. As the people become more mobilised, the hold of the rulers will become progressively weaker. At present, it is in the Portuguese colonies that the struggle has reached an advanced stage and where vast areas have been liberated and civil administrations based on popular support have been set up. On the other hand, in South Africa, it is still in the embryonic stage, while in Namibia and Rhodesia armed clashes have already begun.

The extent of the struggle in the Portuguese territories can be gauged by the amount that Portugal spends yearly to defend her "overseas provinces". Patrick Keatley, in the first of a series of articles entitled the "Battle for Africa", estimated that 130,000 troops are under arms in the three Portuguese colonies of Angola, Mozambique and Portuguese Guinea.⁴ These figures are on the conservative side. Angolan sources say that there are 70,000 troops fighting them and an equal number is mentioned by Mozambique freedom fighters as being stationed in their territory. The PAIGC of Portuguese Guinea claims to be pinning down 35,000 Portuguese soldiers. So Portugal's total military commitment in Africa is in the region of 175,000.

The Angolan national movement, which can trace its inspirers back to the end of the nineteenth century, was the first to launch its armed struggle nine years ago.⁵ The first phase started dramatically when militants from Luanda, guns in hand, stormed the hated central prison walls and released hundreds of political prisoners incarcerated there. This was on February 4,

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1961 and was Angola's Bastille day. The Portuguese, true to the nature of the regime retaliated savagely and brutally. 3,000 people were machine-gunned in cold blood in Luanda while 5,000 unarmed peasants were massacred at Baiza de Cassange around the districts of Malange and Luanda. However, the Portuguese failed in their main purpose, as the main body of militants made good their escape and took refuge in the forests of the north-west region.

Two groups, the MPLA led by Agostinho Neto and the GRAE led by Roberto Holden sought supremacy. The attitude of the independent African states as well as the OAU did not help in this matter. The OAU, Kenya and the Leopoldville Government of the Congo recognised Holden, the latter country taking the harsh step of expelling the MPLA from its territory. However the grim realities of the conflict soon proved that it was the MPLA which was doing the actual fighting and that it had roots amongst the people. The OAU then reversed its original decision and while accepting the MPLA within its fold de-recognised the GRAE. Now in the ninth year of fighting, the MPLA has established five zones embracing nine districts covering over one-third of Angola.

The most important development of strategic significance has been the consolidation of the third zone comprising the districts of Moxico and Cuando-Cubango. Fighting on this front began in 1968, and it is here that the MPLA has recorded its greatest gains. The Moxico and Cuando-Cubango area is a vast region four times the size of Portugal and is covered with forests and interspersed with rivers which form the base of the Zambesi. During the rainy season the Portuguese are virtually paralysed and even in the dry season operations are hazardous. The latest figures for this region released by the MPLA show that:

"Enemy losses amounted to 3,000 soldiers killed, 2,600 wounded, 60 PIDE agents killed, 3 executed, 8 Portuguese bases, 10 concentration camps and 2 airfields attacked ... Thanks to this activity it was possible to free 5,000 workers and their families from strategic hamlets which were controlled by the Portuguese colonialists."

This vast area is sparsely populated, but it is here that one witnesses the growth of civilian institutions. The destruction of strategic hamlets has given way to the rise of model villages which have cut across ethno-linguistic barriers and it is one way that tribalism is being

broken down. Popular organs of power are slowly emerging and action committees whose members are directly elected by the people are replacing the hereditary institution of chieftainship. These organs of power have grown directly out of the armed struggle and are the strongest bulwark against possible back-sliding by a compromising leadership.

SOUTH AFRICAN INVOLVEMENT

The direct involvement of South African troops in this third region is understandable, for its consolidation threatens the entire north-western flank of Vorster's regime, makes vulnerable the Cunene hydro-electric project and brings the airfields in the northern parts of Namibia within range of guerilla activity. It is the third region which has turned out to be the rulers' weakest link, for its further consolidation can have tremendous importance for the struggle further south. Hitherto the liberation movement of Namibia had to use the vital Caprivi strip for its work. This piece of territory belonging to Namibia has common borders with Botswana, Rhodesia and Zambia. The Zambesi touches all these territories at one point in the Caprivi strip near the Kazangula area. The Vorster regime believed that by controlling this strip it would thwart the activity of the freedom fighters. At first it tried to bribe the chief of the area by giving him a free air ride. But this was of no avail and last year Vorster's police and soldiers moved in and let loose a reign of terror, razing houses to the ground, killing over sixty persons and dragging hundreds to Pretoria to be tried in Vorster's courts for aiding the guerillas. Vorster believed that by these terror tactics it had stabilised the region, but now this third region poses a serious threat. This is not just another Caprivi, for terror is now met with equal terror from the guerillas. Vorster has rushed his forces to this area to "stabilise" the situation. He has had to do so at the risk of dispersing his forces and thereby weakening his other flanks. With increasing dispersal, the outwardly powerful South African army will find itself inferior locally and this will progressively weaken it. It is in this sense that the Angolan and Mozambiquan fighting has already helped the struggle further south.

The growing strength and confidence of the struggle and its consolidation of the liberated areas can also be gauged by the fact that both MPLA and UNITA now have their headquarters

inside Angola. Neto, President of the MPLA, summed up the future perspective in Angola when he said:

"Other regions will be developed this year, so that there should no longer be a number of combat fronts, but only one, enveloping the enemy in an encirclement which will paralyse him and render him inoffensive. This will be the prelude to the final blow which will culminate in the seizure of political power by our people."

Mozambique on the eastern side of the African continent is smaller in size than Angola, but it has a larger population. It was to the credit of the late Eduardo Mondlane that he was able to weld together the various essentially tribal organisations into a national one. It was out of the unity of the two largest organisations, MANU (Mozambique National Union) and UDEA (National Democratic Union of Mozambique) that FRELIMO was born in 1962. The former had a mass base in the Cabo Delgado province adjoining Tanzania while the latter being widely spread had members scattered in Malawi, Tanzania, Rhodesia as well as in parts of Mozambique. An editorial in *Revolution* said of Mondlane:

"Out of the many tribes he led one united front; out of many tribes he was able to foresee one nation; never did he fail to perform his duty as a man of the nation, a Mozambiquan."

It was this movement with a national outlook that set about to implement its decisions to mobilise the masses politically, establish a clandestine organisation inside the territory, train military cadres and organise cells in towns and cities. Two years later it was able to announce that it had launched an armed struggle. Portugal in this case was not taken unawares. It had already begun a massive military build-up and had cleared a number of airfields for possible use. As expected the launching of the movement was met with the same savage ferocity and brutality as in Angola. Thousands were massacred in the village of Mueda. However, this did not stop the struggle and within two years the rural areas around the northern provinces of Cabo Delgado and Niassa were cleared of Portuguese troops who were now concentrated only in large towns and the big garrison posts. Within three and a half years, that is just a few months before the Second Congress of FRELIMO which was held inside the territory, Mondlane gave an interview in which he said:

"Our liberation struggle encompasses a third of the country and a fifth has already been freed of every form of colonial domination. In the remain-

ing two-thirds, our activity which is essentially underground, aims at political organisation of the masses to prepare the beginning of armed struggle."

In October 1968, an English language South African weekly sympathetic to Vorster's "Outward Looking Policy" reported:

"Mozambique terrorist movements operating from Zambia are reported to be stepping up their efforts to secure a foothold in the northern area of Tete district as a prelude to the harassment of the Caborra Bassa scheme."

The "terrorist" movements referred to were FRELIMO and COREMO, a rival group, both of whom were believed to be operating there. There is no question that the nationalist movements are serious about the Caborra Bassa dam. In fact the slogan "Delenda Est" put forward by FRELIMO is aimed at rallying all its forces to prevent the construction of this project. On the face of it, this might appear to be completely contrary to the principle of guerilla warfare of never engaging with the enemy far away from the liberation struggle's strongholds. Its slogan has also revealed FRELIMO's strategy well in advance to the enemy. But the stakes are high, for once construction gets started, it will bring the movement into confrontation with several of the NATO powers including America, Germany, France, and Britain.

Originally Caborra Bassa was to be a small project. In 1962 the Salazar government talked of a £2.5 million project to serve the area locally. But now this project, thanks to South Africa's interest in it, is to cost about £125 million. If constructed, it will be the largest dam in Africa operating at a working cost of 0.35 US dollars per Kwh. This would make it the cheapest hydro-electric plant in Africa.

It was Salazar's strategy to involve as many Western powers as possible. Therefore, he invited tenders from several Western companies for the construction of this project. Three consortia tendered. They were: Caborra Bassa Builders; French, American and South African. Caborra Bassa Construction Consortium; Italian, British and South African. Zambezi Hydro-Electric Consortium (ZAMCO); West German, French, Swedish and South African. ZAMCO was awarded the contract.

The companies involved were: Siemens and Telefunken from Germany; Alstom, Cogeflex and Compagnie Generale d'Enterprises Electriques from France; ASEA from Sweden. From

South Africa there was LTA, a subsidiary of Oppenheimer's giant Anglo-American Corporation, and VECOR. Although the consortia included companies from different western countries, all three had a South African firm participating.

South African participation was on the understanding that the Caborra Bassa Scheme would supply it with over 80 per cent of the power produced. This would be made possible by the construction of high voltage transmission lines using D/C current from the site to the Witwatersrand, a thousand miles away. Since the bulk of the electrical contract was to go to Western Germany, Salazar was able to involve the German Government too. Its central bank agreed to supply credit to the firms, to be repaid only after 1975.

TANZANIA AND ZAMBIA

The two African countries which have helped the guerilla movements the most are Tanzania and Zambia. Tanzania has openly admitted that it has training camps for the freedom fighters in its territory and has called on the oppressed people of Africa to look upon it as a revolutionary base area. Zambia has officially denied any connection with the freedom fighters except allowing their organisations to have offices there. However, the Portuguese know that the liberation organisations could not have stepped up their campaign without supplies sent through Zambia. In the recently opened front in Tete district, the freedom fighters would not have been very effective were it not for free passage through the Zambian side. Tete adjoins the Zambian border along its eastern side and Caborra Bassa is just two hundred miles away from there. Thus from the Zambian side, the dam is very vulnerable. That is why the Portuguese have called on the South Africans to help guard this strategic area.

The white minority regimes are bent on harassing Zambia, the ultimate aim being the destruction of the governments led by Kaunda and Nyerere. That explains the increase in bombings and sabotage operations in Zambia. The counter-strategy of the white powers is to destroy the nation-states of Zambia and Tanzania and replace them with Bandastans or Bantustans.

Behind these white minority regimes are many NATO powers whose assistance takes the form of military and economic aid. Portugal has no armament factories of its own and its defence budget of about £86 million is spent on

buying arms. From Belgium and West Germany it gets the FN and G 3 light infantry weapons, respectively. The air force now consists of F 84 and Fiat G 91 planes from America and Italy, respectively. The French have supplied it with Alouette helicopters and Daphne class submarines.

The reason for the increase in the economic investment in Portugal and her colonies was given by a leading paper. It said, "Foreign investors find favourable conditions for private enterprise; low level of taxation, abundant manpower for light industries and wage levels considerably lower than most European countries".¹ The London based Lonhro company has a major interest in an oil-line that runs from Beira to Rhodesia, while the Benguela Railway is controlled by Tanganyika Concessions, a British firm. In 1965, of the 122 foreign industries which were established in Portugal, 34 were British. When Portugal was in the economic doldrums in 1967, it was "ailing" Britain which pulled her out of the crisis by granting her a loan of £50 million. There is little doubt that it is the activities of the Western nations which have made it possible for Portugal to survive the heavy drain of the war. Western support for the nationalist armed struggle is almost nil and even the token support which Holden's GRAE got from America has now dried up.

It is from the socialist countries that the national liberation movements get their aid. Socialist aid flows from Lenin's thesis that it is the duty of proletarian internationalists to aid all revolutionary national movements. This aid takes the form of the supply of arms and training of soldiers, as well as financial support. As against the massive amount of £86 million which Portugal spends annually on her defence, and £175 million which South Africa voted for this year's military budget, the amount of £750,000 given by the OAU for all the liberation movements is pitifully small and totally inadequate. FRELIMO claims to have shot down twenty planes and the cost of two of these would add up to the total budget which the OAU has allotted for the liberation movement.

As the movement gains momentum, both in depth and scope, as more areas are liberated, the freedom fighters will begin to rely increasingly on themselves. But the very growth of the struggle also makes it necessary for them to have a regular supply of arms. In food and clothing they could become

self-sufficient but the need for a sophisticated armoury becomes all the greater. For instance FRELIMO fighters besides using rifles, automatic pistols and light machine guns, now also have bazookas, rockets, mortars and light anti-aircraft artillery. The socialist countries only, are willing to give such generous aid. At the last congress of FRELIMO, held inside the territory, Mondlane specially singled out China for the contribution she had made to the armed struggle in Mozambique. He said:

"I would like to take the opportunity to express gratitude from the Central Committee of the party of militants to the Government of the People's Republic of China on the tireless work of its citizens who have trained and continue to train many of our military cadres in the art and science of modern warfare developed and perfected by Mao Tse-tung and for the material support which the Chinese people gave through the Government of Tanzania."²

He also praised the USSR and other socialist countries for their help.

At present, all the organisations engaged in the armed struggle stand for a national democratic programme. The MPLA's minimum programme aims at the liquidation of Portuguese rule, agrarian reform, abolition of all racial

discrimination, abolition of passes, freedom of expression and movement and universal franchise. The MPLA admitted Europeans as members showing that from the beginning it was free from any taint of racialism. The same could be said also for the movements in Mozambique. Their programme stands for independence from Portuguese rule, abolition of forced labour, acceptance of the principle of equal pay for equal work and other such democratic measures. Their leaders have also said that the ultimate goal they would like to see realised would be socialism. Mondlane expressed the view of many who are today engaged in the armed struggle as to the nature of the state that should emerge from the destruction of the old society:

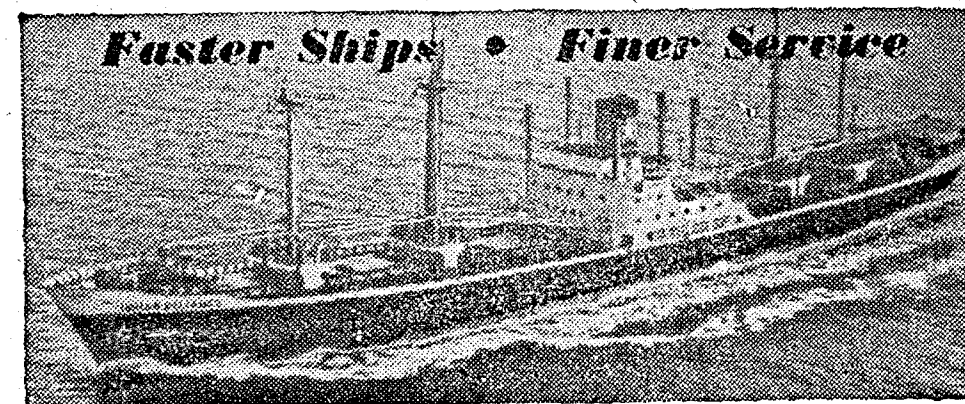
"Our state will not be a state like Russia or China. It will be democratic, modern, and a single-party state. Our model is the neighbouring state of Tanzania. Tanzania has a challenging experiment under way and as far as I am concerned personally, Tanzania is providing a kind of leadership that all of us south of the Sahara should want to know more about."³

Mondlane did not live to see the end of the road of the struggle that he helped to launch. But the vision of the society he strove to build till the end of his life will remain. For out of the ashes of the rotten fabric of the old

society will arise a new social order which will elevate a formerly degraded and dehumanised people and restore the manhood which centuries of oppression have sucked out. It will be a society superior to anything which the suffering people of Mozambique and Angola have known for the past five hundred years.

NOTES

- 1 Duffy, James: "Portugal in Africa", p 154.
- 2 Mehta, B G: "Report of Seminar on the Problem of Portuguese Colonies", p 3.
- 3 *Ibid*, p 25.
- 4 *National Herald*, 24-7-69.
- 5 Among the inspirers were a number of intellectuals, notably, Siveiro Ferreira, Paixco Franco, Cordeiro Matta and Assis Junior, who established the line of demarcation movement.
- 6 See *Angola in Arms*, 4-2-69, pp 4-5.
- 7 Press conference by Neto in Brazzaville, 3-1-68. Also see *Angola in Arms*, p 20.
- 8 See editorial in *Mozambique Revolution*, Jan/Feb 1969.
- 9 *International Affairs*, Belgrade, 5-2-68.
- 10 *Sunday Tribune* (South Africa), 28-10-68.
- 11 *Financial Times*, London, 13-6-68.
- 12 FRELIMO: "Document of Second Congress of July 1968", p 17.
- 13 See article by Shanti Sadiq Ali on Mondlane in *Hindustan Times*, 8-2-69.



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STATISTICS

Direction of Foreign Trade

Exports

	1969-70	1968-69
Africa — of which		
Sudan	19.8	18.5
UAR	34.6	21.8
Total Africa	88.1	72.8
North America		
Canada	26.3	29.7
USA	237.6	233.5
Total North America	264.0	263.2
ECAFE — of which		
Australia	24.4	25.5
Ceylon	25.6	23.4
Iran	24.0	21.4
Japan	179.3	158.2
Nepal	27.3	24.7
Total ECAFE	375.7	341.4
Other Asian & Oceanian Countries & Antarctic & Arctic Regions — of which		
Kuwait	16.8	18.2
Saudi Arabia	15.0	11.0
Total of Other Asian & Oceanian Countries & Antarctic & Arctic Regions	72.6	67.0
East European Countries — of which		
Czechoslovakia	30.1	31.7
USSR	176.2	148.2
Yugoslavia	34.0	18.8
Total East Europe	307.4	266.2
ECM — of which		
Belgium	24.7	31.5
Federal Republic of Germany	29.8	26.1
Total ECM	100.2	110.8
EFTA		
United Kingdom	164.2	200.8
Total EFTA	182.5	216.3
Total Other Europe	11.4	10.9
Total Exports	1408.6	1354.2

Imports

	1969-70	(Rs crores) 1968-69
Africa — of which		
Sudan	27.2	21.5
UAR	21.7	41.4
Total Africa	141.4	148.2
North America		
Canada	73.9	98.6
USA	460.0	572.4
Total North America	533.9	671.0
ECAFE — of which		
Australia	31.3	25.7
Iran	83.4	86.4
Japan	66.8	115.4
Arctic and Antarctic Regions		
Total ECAFE countries	260.0	329.1
Other Asian and Oceanian Countries & Antarctic & Arctic Regions	17.5	12.8
Total Asian and Oceanian Countries & Antarctic & Arctic Regions	37.0	24.8
East European Countries		
Czechoslovakia	23.0	35.3
German Democratic Republic	24.3	20.5
Poland	22.5	21.8
USSR	170.4	191.7
Total East European Countries	281.4	309.6
ECM — of which		
France	23.2	36.5
Federal Republic of Germany	83.7	120.1
Netherlands	15.7	17.7
Total ECM	170.4	234.8
EFTA — of which		
United Kingdom	100.4	127.5
Total EFTA	129.2	170.2
Total Imports	1567.5	1908.6

Index of Wholesale Prices

(1961-62=100)

	Weights	Week Ended			
		25.7.70	18.7.70	27.6.70	26.7.69
Food Articles (413)	206	206*	204*	205	
Foodgrains	358	212	212*	212*	215
Cereals	293	206	206*	206	208
Pulses	65	238	240*	240*	249
Fruits, vegetables	57	228	219	206	205
Milk, ghee	147	209	212	205*	212
Edible oils	130	237	237	240*	217
Fish, eggs, meat	49	217	220	217	204
Sugar, gur	157	164	163	159	184
Others	102	188	190*	195*	171
Liquor and tobacco	(25)	184	184	186*	199
Fuel, power, etc	(61)	160†	160†	160†	155
Raw materials	(121)	198	197	210*	190
Fibres	340	171	171*	173*	167
Oilseeds	433	239	236*	244*	222
Minerals	29	141	141	141*	137
Others	198	165†	165*	164*†	168
Chemicals	(7)	185	185*	185*	176
Machinery, transport equipment	(79)	146	146*	146*	134
Manufactures	(294)	152	152*	152*	141
Intermediate products	195	175	175	175	156
Finished products	805	147	147*	146*	138
Textiles	386	145	145	145*	135
Cotton	268	141	141	140*	133
Jute	81	163†	165	167	147†
Silk, rayon	26	117	117	117	114
Woollen	9	182	182	182	169
Metal products	130	165	165*	162*	149
Chemical products	92	145	144	144*	136
Oilcakes	26	204	204	207†	193
Miscellaneous products	23	120	120	121*	120
All commodities (1000)	181	181*	181*	181*	175

†=Estimated; *=Revised.

Note: Figures in brackets indicate the weights assigned in combining the seven groups into a single. All Commodities index. Weights attached to the various sub-groups within the groups are shown without brackets.

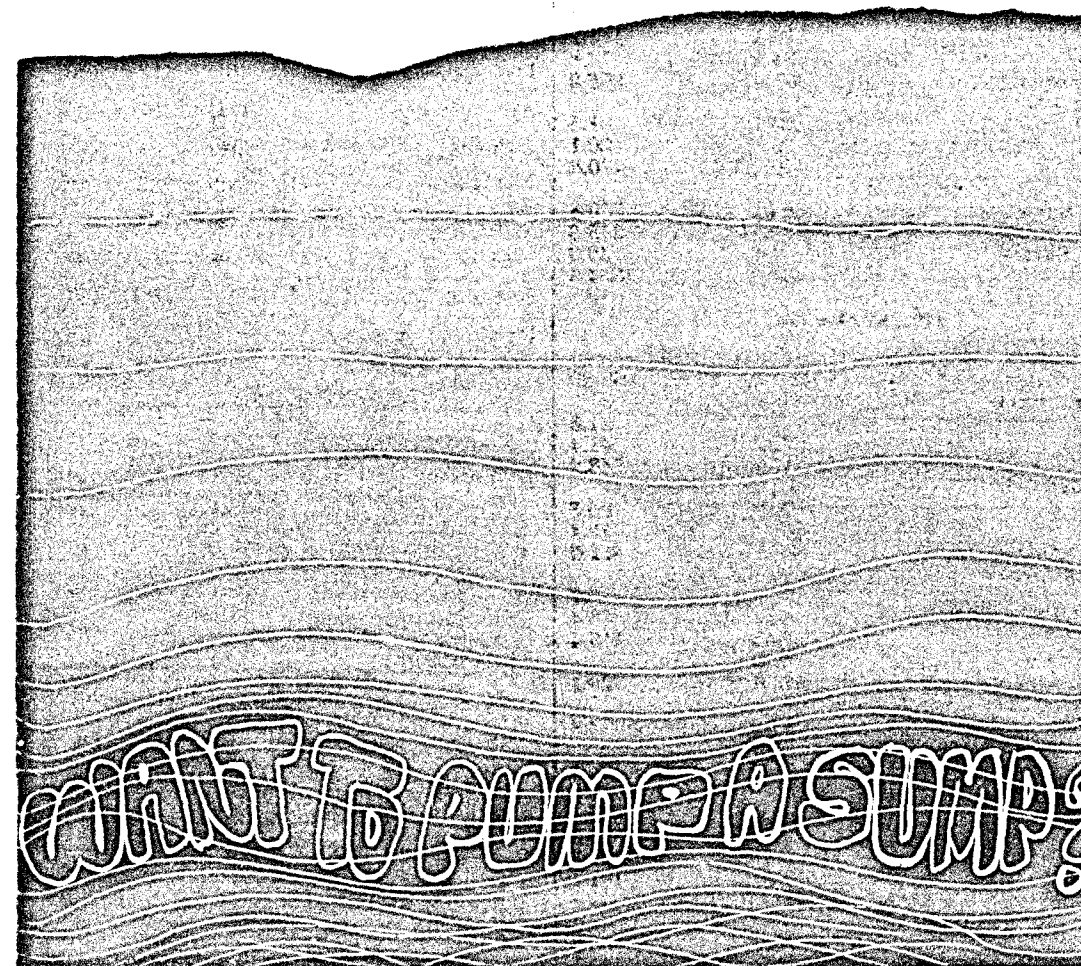
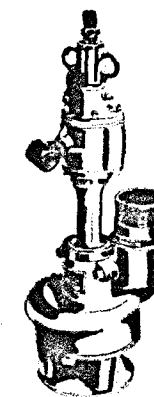
Source: Office of the Economic Adviser, Ministry of Industrial Development and Internal Trade, Government of India, New Delhi.

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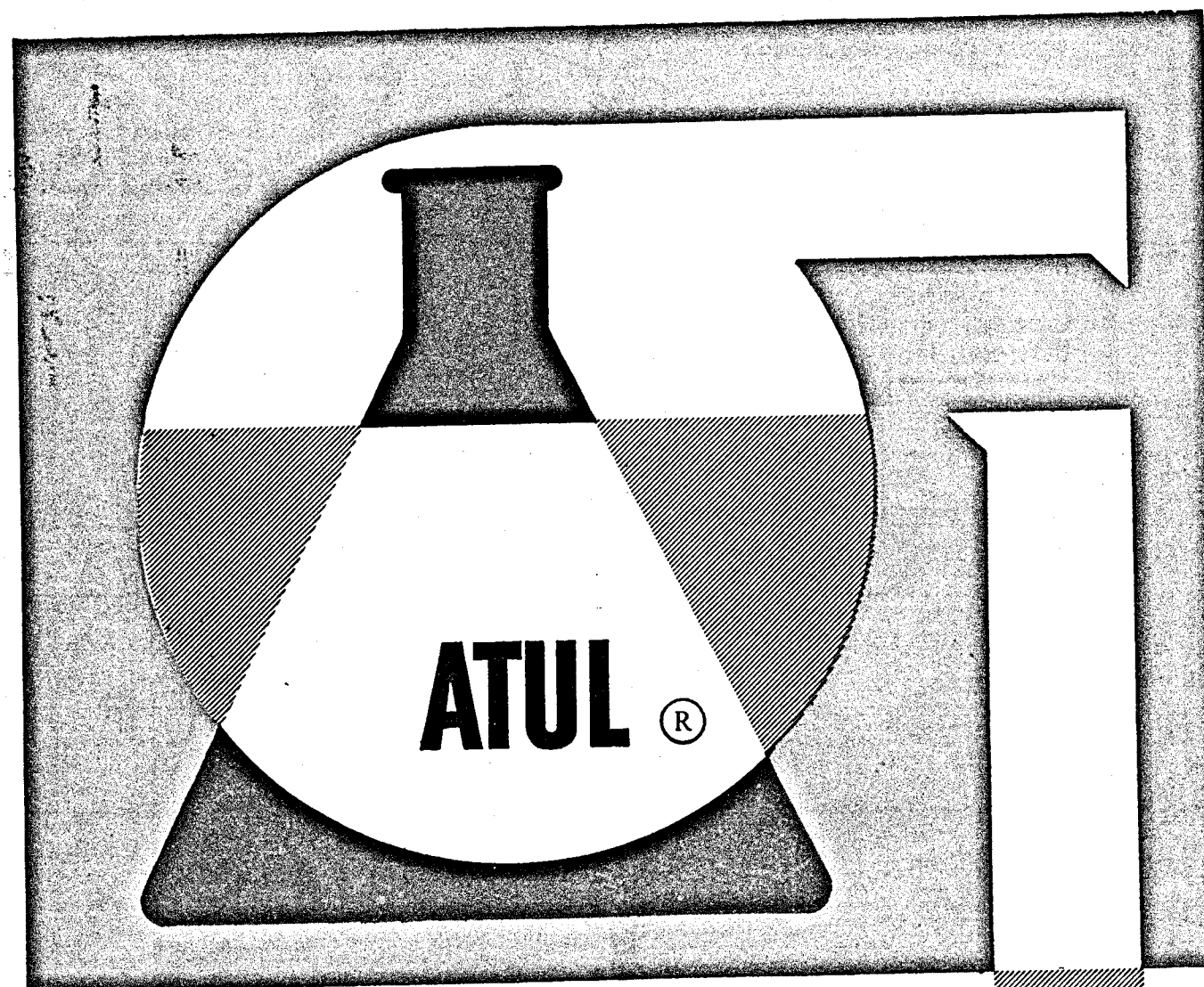
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August 29, 1970

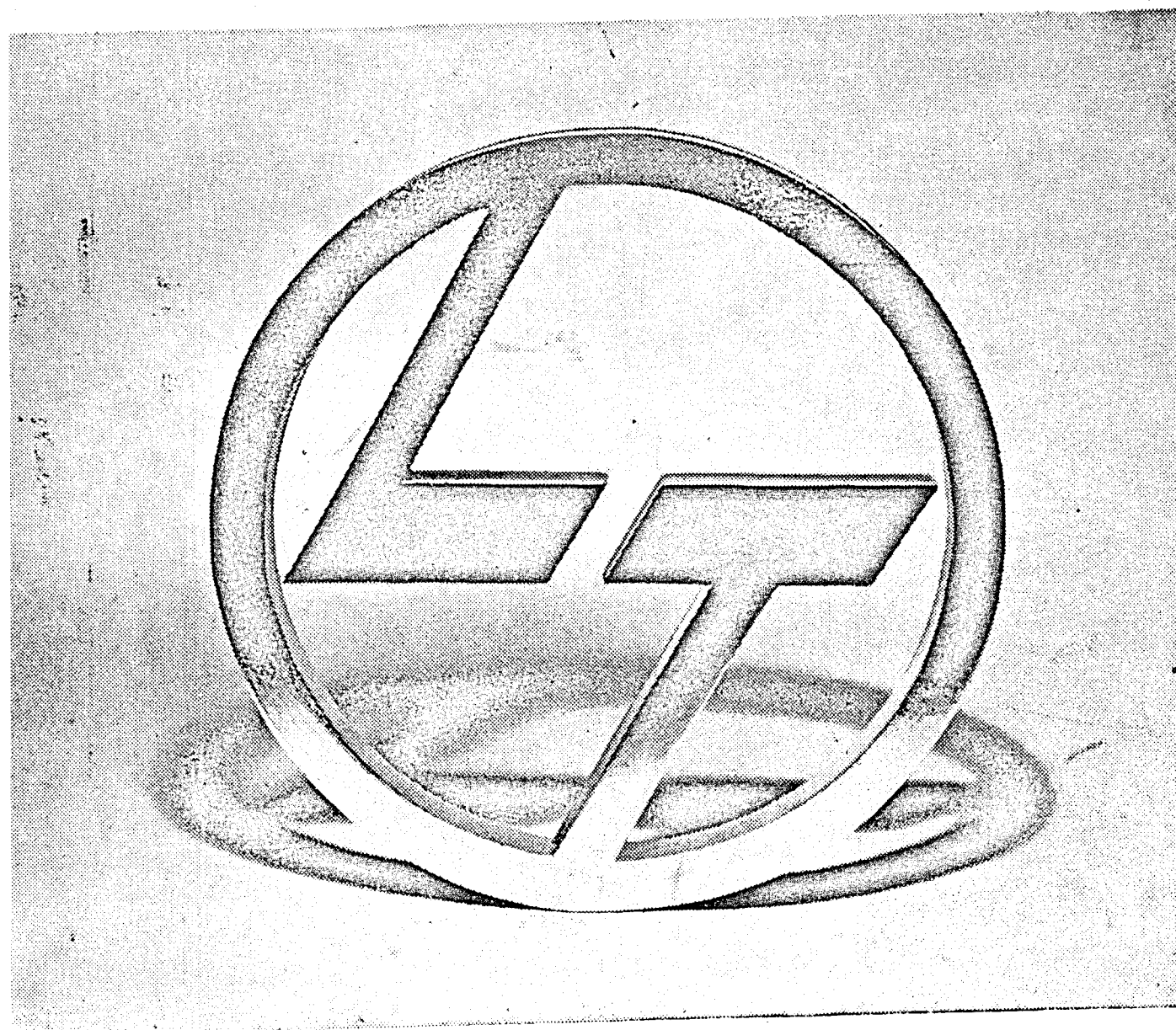
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ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol V No 35 August 29, 1970

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ECONOMIC AND POLITICAL WEEKLY

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To Stay Stuck?

THE External Affairs Minister's reply to the debate on foreign policy in the Rajya Sabha has attracted unusual attention because what Swaran Singh had to say about our relations with China has been widely interpreted as indicating "a basic departure" from Government's past position on the subject. The departure evidently lay in the fact that the Minister did not insist on acceptance of the Colombo Proposals by China as a precondition for starting negotiations with that country but said that India would be satisfied if China signified its respect for our territorial integrity and its readiness to renounce force and the threat of use of force. This is, unfortunately, too slim a basis for assuming that we are going to witness any fundamental change in our policies towards China. The Colombo Proposals have long been dead and forgotten; in fact it is doubtful if many of the Honourable Members who listened to the Minister even recalled what the proposals consisted of. The absence of any reference to them in Swaran Singh's speech, even if the omission was studied and deliberate, as it probably was, cannot be taken to mean very much.

What is more discouraging, however, is that we seem to persist in viewing our relations with China exclusively in bilateral terms. Obviously our approach continues to be totally dominated by memories of 1962 and the thought that China is in occupation of territory which we believe to be ours. Hence the emphasis on China recognising our territorial integrity and renouncing force and the use of force; hence also the high priority given to "negotiations". Given this narrow viewpoint it was only natural that Swaran Singh should have, as always, bracketed together China and Pakistan as the two countries with which we have had armed conflicts and tried to balance Government's attitudes towards them, lest it be accused of being 'soft' on the one or the other. Having expressed his readiness to negotiate with China, Swaran Singh proceeded immediately to reiterate Government's "long-term objective" of normalising relations with Pakistan.

The temptation to treat Pakistan and China on an equal footing as our two "troublesome" neighbours is understandable, but the fact is that they cannot be so treated. Our relations with Pakistan are largely a bilateral matter between our two countries and have, in fact, become more so over the years. On the other hand, our ties with China are inextricably mixed up with the respective positions of the two countries in overall world politics. There may be many who seriously believe that the present state of our relations with China is entirely the result of differences over the border which culminated in the hostilities of 1962. In fact, it would be more correct to say that the border became a live issue after India and China had parted company with regard to their respective approaches to international politics and especially their attitudes to the two Super Powers, United States and Soviet Union. Surely, the border conflict between China and Soviet Union was similarly the by-product of their falling out over larger issues of international affairs and the world communist movement?

If India's relations with Soviet Union and United States and our acceptance of the international political system of the latter half of the fifties and the sixties dominated by these two powers profoundly influenced — indeed determined — our relations with China, it is also a fact that our attitude to China immensely helped us in securing the joint approval of the two Super Powers and in being so smoothly integrated into their world political system. In this respect, while the hostilities of 1962 made the task of the Super Powers easy, one may be sure that even otherwise they would have enforced a deep-freeze of diplomatic relations with China as the price for our acceptance into their system of world politics with the attendant benefits which have consisted in being accorded a certain respectability, in our being able to secure economic and military aid from both Powers and, what is perhaps most important from the point of the present Government, in their tacit underwriting of the political *status quo* in the country. The Super Powers have exacted the same price from numerous other countries who, on their own, had no personal quarrel with China.

The point is that, unlike with Pakistan, our relations with China have to be viewed in the overall context of our relations with Soviet Union and United States and of the two Super Powers' own relations with China. It is well accepted by now that for some time the Super Powers' relations with China have been undergoing a significant change. Both Powers have recognised that they cannot wish China out of existence or even prevent its emergence as the third Super Power. The Americans have begun to look for ways of making the best of what is, from their point of view, the positive aspect of China's

emergence as a Super Power: its role as a check and a challenge to Soviet Union in Asia. This potential role of China's is of importance to a United States that is no longer confident that it can sustain its presence on mainland Asia. It would be surprising if the Russians do not likewise see some positive aspects to China's rise to power. To the extent that China is helping to end American dominance over Asia, Moscow has no reason to regard the growth of Chinese influence as an unmixed evil. But more important than their recognition of the positive aspects of China's emergence as a Super Power is their realistic acceptance that there is no alternative to co-existence with China. Given this situation, the two Super Powers have necessarily to prepare themselves for a dialogue with China and to gradually adjust themselves to the evolution of a new triangular power balance in the world.

To the extent the current state of our relations with China is the product of a period when United States and Soviet Union were uncompromising in their hostility to China and when their efforts were bent towards isolating it and preventing it from acquiring a major power status, it follows that the change in the Super Powers' attitude to China calls for some modification of our own position vis-à-vis China. It must be clearly seen, however, that improvement in relations with China can neither await a border treaty nor will it perhaps immediately produce one; nor will China be persuaded by expressions of goodwill on our part, however sincerely meant, to "renounce force" or to return territories which we believe to be illegally occupied by it. Better relations with China will not pave the way for a sharp reduction in our defence spending; they will not even produce, unlike for Japan, a trade bonanza for us. We have thus to view our relations with China entirely in terms of our future role in world politics.

It may be taken for granted that while they are themselves reassessing their China policies, neither Soviet Union nor United States will encourage a similar attempt on India's part. For us to make the attempt nevertheless will, therefore, call for considerable boldness which, given its precarious position within the country, one doubts very much that the present Government will be capable of. So, despite Swaran Singh's readiness to forget the forgotten Colombo Proposals,

the prospect is that our China policy will stay stuck.

Jolt for Secular Souls

JUST when the Prime Minister has decided to make anti-communalism a major plank of her political platform, the Muslim League has thrown a spanner in the works by launching determined efforts to re-emerge as the spokesman of Muslims all over the country. After Independence the League has been active only in the south; in the north and the east it ceased to be a potent force partly because the leadership of the pre-partition Muslim League migrated *en bloc* to Pakistan and partly because, in view of the passions roused by partition, the Muslim leadership which stayed back decided that it would be best for Muslims to assume a 'low posture'.

In both these respects the situation in the northern and the eastern States has changed considerably. On the one hand, over the years a new leadership has begun to emerge among Muslims in these parts of the country which is beginning to displace the mostly effete 'nationalist' Muslim leaders of the pre-partition days. In the emergence of the new leaders, non-political and semi-political organisations like the Muslim Majlis and Jamaat-e-Islami have played an important part. But though they have been nurtured by these organisations, the new leaders have grown impatient with their reluctance to play a more active political role. On the other hand, it now seems to large sections of Muslims that the strategy of the 'low posture' has been a miserable failure. Not only have Muslim lives and property continued to be lost in successive communal riots all over the north and the east, but the relative position of Muslims in industry, commerce and in the public services, especially the police and the army, has markedly deteriorated.

The decision of the Muslim League, at its Calicut session, to start branches of the party in the north is evidently based on an appreciation of these developments. It is, of course, impossible to say what immediate success the League's move will meet with, but it represents a process which is unlikely to be reversed. It is hardly surprising that the development should have caused most concern among Congress*(R) and the Leftist parties, especially the communists. Its secular posture has always helped Congress to make a bid for Muslim votes at election-time. And after

the split, Indira Gandhi has sought to make her party's anti-communalism even more strident. And yet it is questionable whether the Congress (R) Government in Maharashtra was able to give any better protection to Muslims during the riots in Bhiwandi than did the Congress (O) Government in Gujarat during the Ahmedabad riots. As for the Leftist parties, their secularism has been of the same genre as that of Congress. Instead of tackling communalism by concentrating on the class and economic divisions in society, they have, like Congress, pandered to Muslim communalism with an eye to Muslim votes. The organisation of Muslims as an open political force under the Muslim League, should that come about, will make it definitely more difficult for both Congress and the communists to pose at election-time as protectors of the minority community. Hence the great concern among these parties, ostensibly in the name of secularism, at the signs of the Muslim League's re-emergence in the north.

While the entry of the Muslim League into new areas is hardly something to applaud, the anguished cries that this would vastly intensify Muslim communalism and communal tensions in general are rather hypocritical. Organisations like the Muslim Majlis and the Jamaat-e-Islami, which are now in some danger of losing their following to the League, have always been avowedly communal organisations. Whether the organisation of Muslims for an open and independent political role will add to communal tensions is an open question. The experience of Kerala is not entirely discouraging, though it may not be entirely relevant either. At the same time it needs to be pondered whether more active participation by Muslims — though *qua* Muslims — in the country's political processes will not subject the community to modernising influences to a greater degree than at present and whether it will not make for greater mobility within the community's leadership structure.

Imperial Preference and Golden Nationalism

Ottuketkal writes:

THE hazard to health associated with cigarette smoking is one that cigarette manufacturers in the United States are required by law to indicate on every packet of cigarettes marketed in that country. They are also subject to restraints on the claims they can make for competing brands. This is true of

a number of European countries as well. The Indian cigarette manufacturer, however, has no inhibitions, voluntary or enforced, about hammering the point home that cigarette-smoking is a desirable consumption goal.

But some cracks have appeared in the propaganda edifice built up by cigarette manufacturers. Some advertising agencies have reportedly lent their expertise to particular cigarette manufacturers to run down rival brands. Nothing has appeared in print (though there have been charges of press campaigns in Assam). The word just spreads that a certain brand of cigarettes causes cancer. The technique is not really new. About two decades ago, Calcuttians had learnt in similar fashion that a particular brand of cigarettes caused tuberculosis. The opinion was attributed to a famous doctor-politician of West Bengal! That cigarette is today a non-seller.

Retaliatory propaganda by makers of the affected brands has had to take the line that not a particular brand of cigarettes, but cigarette-smoking in "excess" is bad for health. However unsatisfactory this admission — "excess" is undefined, and the hazard hinted at is much less than the dreaded cancer, only "bad health" —, the paradox is that acknowledgement of the danger to health from cigarette-smoking has come from the manufacturers themselves and not from the Government or the Indian Cancer Society for that matter.

Cigarette production in India rose from 20,000 million in 1948-49 to an estimated 60,000 million in 1969-70, annual per capita availability shooting up from 40-50 cigarettes to 100-120 cigarettes.

The health hazard inherent in this growth is better appreciated if the figure of per capita availability is modified to allow for the fact that cigarette-smoking is basically an urban phenomenon; that it is largely restricted to men; and that smokers are generally adults above, say, sixteen years. The average per capita availability of cigarettes to the effective cigarette-smoking population — broadly, urban adult males — will turn out to be many times the above-mentioned figure.

It is against this background that the current demands for expansion of cigarette production should be viewed. Manufacturers claim that production is short of demand. This is plausible enough, considering the crores of rupees spent to promote cigarette-smoking and to counter the effect of mount-

ing excise duty. So strong is the demand push (in other words, so successful has been the cigarette-makers' promotion campaigns) that unless supplies are raised, cigarette prices are likely to shoot up. Induced demand has now to be matched by supply expansion.

There are ten cigarette companies. Their total capacity in 1967 was about 61,000 million and production about 54,000 million. Imperial Tobacco, now called India Tobacco, had a registered capacity of 24,240 million and a production of 28,206 million. Vazir Sultan, believed to be an associate of Imperial (the chairman of India Tobacco was a director of Vazir Sultan in 1969), had a capacity of 8,880 million and a production of 10,105 million. Godfrey Phillips had a capacity of 2,400 million and a production of 3,586 million and D Macropolo a capacity of 108 million and an output of 70 million. The last two companies belong to the Phillip Morris Group.

The foreign shareholding in Imperial Tobacco was 94 per cent in 1967 — the bulk of it believed to be in the hands of British American Tobacco — but was reduced to about 75 per cent recently. The foreign shareholding in Vazir Sultan is 67 per cent. Godfrey Phillips and D Macropolo are subsidiaries of foreign companies.

Production data for 1967 indicate that Imperial Tobacco's share of the Indian market is about 50 per cent. Taken together with Vazir Sultan's share of the market, the proportion rises to about two-third. Taking also Godfrey Phillips and D Macropolo, the foreign-controlled manufacturers account for at least 70 per cent of the market. In any case, Imperial's lone share of the market is well above a third, so that it comes within the purview of the Monopolies and Restrictive Trade Practices Act.

Of the six Indian companies in 1967, Golden Tobacco of Bombay with a capacity of 5,400 million produced 7,107 million cigarettes and National Tobacco of Calcutta with a capacity of 14,400 million produced 4,785 million. National's output was especially low in 1967 because of a strike. The company's production was 10,027 million in 1966. The four other Indian companies with a combined capacity of 2,260 million produced only 178 million cigarettes in 1967.

Given the idle capacity that exists at the lower, and the Indian, end of the industry, should the bigger units be allowed to expand, especially since the

biggest of them already commands more than one-third of the market? The issue of monopoly or dominant undertaking — which the Monopolies Commission could look into either on a reference from Government or a complaint from rival manufacturers — and the related issue of the extent to which foreign undertakings should be allowed to capture the Indian market are not, however, relevant for the purposes of this piece. Far more important is the question whether all cigarette manufacturers — foreign and Indian — should not be curbed.

Vazir Sultan, producer of the largest selling brand of cigarettes, wants to expand capacity. To strengthen its case it has claimed that it is independent of Imperial Tobacco. Among Indian companies, Golden Tobacco alone, with production in excess of registered capacity, is willing to expand, and that too only if Vazir Sultan is contained.

Whether cigarette manufacturers should be licensed to expand capacity, however, becomes a redundant question when it is considered how easily Imperial Tobacco has been able to expand its production. ITI makes no bones about this. In its prospectus issued in early 1970, when it offered the Indian public 37.90 lakh shares of Rs 10 each at a premium of Rs 3, the company stated: "The company's cigarette factories are registered under the Industries (Development and Regulation) Act, 1951. It is not the intention of the company to increase its installed plant (other than minor balancing equipment) and the modernisation programme being implemented does not require a licence under the Act." And yet, consider the following. ITI incurred an expenditure of Rs 2.35 crores on fixed assets during the period 1966-69. In early 1970, it initiated a Rs 4-crore programme for modernisation and improvement of productivity. By how much these expenditures on "improvement of productivity" will raise ITI's effective capacity has not been revealed. In this context, it should be noted that the value of ITI's installed plant, machinery, etc. (at cost less depreciation) stand at Rs 3.42 crores at the end of September 1969.

In the current wrangle over expansion of capacity, the options before the country are sought to be obfuscated. It is not simply a matter of choosing between a foreign-owned company and an Indian-owned one for allowing expansion of capacity without a thought to the added danger to health that the resultant increase in cigarette-smoking

will pose. A rational policy for the cigarette industry should take account of other factors. It should aim, among other things, at

- (i) freezing cigarette manufacture for home consumption;
- (ii) diversion of the entire additional output from "modernisation" or conditional expansion to exports;
- (iii) (a) levy of a deterrent excise duty — say, a five-fold increase over the present unofficially estimated average of 100 per cent on ex-factory prices; and, (b) use of a part of the additional revenue to discourage cigarette demand through a massive education campaign;
- (iv) stringent restrictions on cigarette advertising including a low level of permissible advertising expenditure, with a clear stipulation that advertising should be confined to bare recital of the prices of different cigarette brands; and;
- (v) setting aside a part of the foreign exchange earned from cigarette exports for importing sophisticated equipment for cancer research.

Why Interest Differentials?

A Correspondent writes:

THE Finance Minister recently announced that in principle it had been decided to charge differential interest rates to small borrowers, though some very valid objections had been raised to the scheme at the last meeting of

the Custodians of the nationalised banks with the Finance Minister. The justification for charging concessional interest rates on loans to small businesses (in agriculture, small industry, etc) is not at all clear. It would amount to giving a subsidy to certain categories of borrowers. One wonders whether such a subsidy is at all necessary and, even if it is, whether the interest rate mechanism is a sound instrument for the purpose.

Ultimately, no development effort can succeed unless investment schemes are rationally selected and are viable. A good measure of their viability is the rate of profit or surplus. The rate of interest has to be linked to the rate of profit and if the rate of profit does not differ as between small and large business, there is no case for a differential interest rate. To put it differently, if as a result of charging low interest rates, investment schemes which would earn a low rate of profit are selected, that would be a waste of scarce capital resources and would slow down the rate of growth. After all, it is the function of the interest rate mechanism to select such investment schemes as are consistent with the growth objective as set out in the Plan.

Moreover, what small businesses really need is not credit at low interest rates, but adequate availability of finance at non-usurious rates of interest. Supply of adequate credit to viable small businesses at normal interest rates should, of course, receive high priority and the banking system should direct all effort towards this end — instead of trying to subsidise some small businesses, while

neglecting to provide credit to a large number of others.

One of the major objectives of the nationalised banks must be to supplant the unorganised money market. The proposed differential interest rates scheme would defeat this purpose. It is quite likely that big businesses (including big farms) would borrow from banks *via* small businesses and re-lend the money in the unorganised market at usurious rates of interest. If this happens, the banking system, instead of supplanting the unorganised market, would in fact be replenishing the latter's resources.

Farms and businesses which are not even *potentially* viable deserve a different treatment in the form of technical and other assistance to improve their production techniques, organisation, etc, so as to make them viable. A concessional interest rate is hardly relevant for the purpose. A low interest rate would, if anything, stabilise these enterprises at their present level of low viability. What these enterprises require is adequate credit along with other assistance of a technical-organisational type.

A differential interest rate policy will also encourage corruption. A small farmer who is now paying, say, 20 per cent interest on a loan from a money lender/big farmer would readily agree to pay, say, 12-15 per cent if he can get a bank loan. In the circumstances, middlemen and even bank employees would tend to exploit the small farmers and take away some at least of the difference between the concessional rate and the, say, 15 per cent rate that the borrower is willing to pay.



Clouded Crystal Ball

JUST as the engineering industry is recovering from the recession and demand is picking up, it has run smack into raw material shortages. This is not the best time, therefore, for taking an objective view of the industry's future in the seventies — which was the theme of a seminar in Delhi last week organised by the Indian Engineering Association. The engineering industry is a vast conglomeration of products and of industrial units and does not lend itself easily to generalisations. The seminar did, however, throw up some interesting issues.

An urgent problem facing the industry is shortage of steel — not only of mild steel, but also of some special steels such as those needed in the electrical industry. Import is, of course, the immediate solution; the long-term answer is greater efficiency at HSL, particularly at Durgapur, and at least a little sense of urgency at Bokaro.

The second problem is the political situation in the eastern region where the engineering industry is concentrated. Here there is existing capacity utilisation of which is hindered by financial stringency caused by labour troubles and the industrial recession. It is evident that easing this stringency involves some risk-taking by financial institutions. At the seminar, spokesmen of the industry referred to the need to emphasise profit-earning rather than security in approving loans. So far, however, the financial institutions have been more generous with promises than with money — though a part of the blame for this may lie with the intending borrowers whose capacity to get out of the rut of years-long stagnation is apparently rather limited.

A third problem is that of structural re-organisation to which Industry Minister Dinesh Singh made a reference. The engineering industry is a vast, sprawling one, with processes integrated and disintegrated in a haphazard way. This leads to uneconomic use of capacity as, for example, when captive foundries are set up even while independent foundries are without orders. While immediately the need is to achieve better utilisation of capacity, a more detailed analysis of the long-term linkage pattern of the industry is clearly called for. Unfortunately, the Delhi seminar was so overwhelmed by the im-

mediate issues that it had little time to devote to such questions.

LIC's Retreat

A Correspondent writes:

CRITICISM of its investment policy and constant questioning of its investment decisions have evidently made LIC want to retire into its shell. True, the Dutt Committee misinterpreted the commitment, made at the time of nationalisation of life insurance by the then Finance Minister, C D Deshmukh, to maintain the private sector's share in LIC's investments; it also did not appreciate the logic of investment of life funds to maximise returns consistent with safety. It thus accused LIC of having equated investment in private companies with investment in the larger business houses. Parliament too has recently questioned LIC's proneness to finance large business houses.

But LIC's response to such criticism has been uninspired. Its present Chairman has sought to shift the emphasis of LIC's investment policy in favour of Government and Government-guaranteed funds. According to newspaper reports, LIC is considering even total withdrawal from the private investment market and confining itself to financing of public authorities. Even if these reports are not entirely correct, it is a fact that LIC has recently announced large loans to a group of municipalities; it has also promised finance to the municipal schemes in Calcutta city, irrespective of viability, provided a Government guarantee was given.

Financing of municipalities is, of course, justifiable, purely on economic grounds, and is also entirely consistent with LIC's interests. Such activities, if properly undertaken, are intimately connected with people's health and welfare, which are LIC's primary concern even as a life insurer. However, LIC has also obligations to seek to maximise the returns on its funds; given the scarcity of capital, it has to ensure the most productive (and not merely safe) use of its funds. The safety factor is taken care of to an extent by the statutory restrictions on investment of funds by insurance companies. Beyond this LIC cannot take shelter behind Government guarantees. It has to judge for itself the viability and the relative priority of alternative uses of its resources.

The implications of a possible shift away from investment in the private corporate sector by LIC on investment activity in the private sector and on the stock exchanges need consideration. LIC has been, as the Dutt Committee Report showed, an important instrument of indirect financing of industry. While it has generally kept away from new companies, it has taken up debentures of established companies and shares of new companies after they have reached the dividend-paying stage. The term-financing institutions have been able to pass on to LIC in due course their investments in new companies, thereby replenishing their own resources. LIC has thus been an indirect source of finance for private sector investment.

In the same way LIC has also been a major factor in propping up stock exchange activity. It put in a particularly stout effort in this direction on the eve of the last budget which, as a result, appeared to have imparted considerable bullishness to the stock exchanges. Support of stock exchange prices, as the Mundhra episode showed, need not be one of LIC's major functions. And yet it needs to consider the impact of low-yield financing on its operations and also the consequences of its withdrawal from industrial financing on the liquidity of other financing institutions' portfolios and on overall investment activity in the private sector. Clearly, LIC needs to determine its investment decisions by reference to some long-term policy.

Dualism in Cloth

GOVERNMENT has tried, to the extent possible, to pass on the burden of fighting inflation to various productive sectors of the economy. In recent months industry has had to increasingly bear this burden through controls imposed on the prices of various industrial products.

Two kinds of inflationary forces need to be distinguished in this context. There are the demand-push price rises in many industries where supply has failed to keep pace with demand (often owing to Government policies causing investment stagnation). Examples are aluminium (where a price freeze has been imposed recently) and paper (where the recent price rise can be interpreted as compensation for a virtual price freeze for 5 to 6 years around the mid-sixties). Then there are the cost-push price increases in a large number

of goods where, with normal demand and supply positions and profit margins, a cost rise has to be passed on to the consumer.

Cotton cloth falls in this latter category. While production has increasingly tended to be shifted to fines and super-fines and to blends with artificial fibres, per capita consumption has remained remarkably stagnant at about 13 metres per annum. While Government has left this end of the production to free market forces, it has sought to control prices at the low price (coarse variety) end, mainly covering shirting, sarees, long-cloth and dhooties. This part of cloth output has been subject to price control since October 1964, the proportion of the industry's total output subject to control being now 25 per cent.

Prices have been revised from time to time in the controlled categories, though with a lag. Last year, instead of giving a price rise to compensate for the rise in cotton prices, Government reduced excise duties. However, prices of cotton have remained high and wages have risen since the last price rise; so the industry is once again asking for a price hike.

Purely on cost basis, which has long been the accepted basis of Government's philosophy of price control, the industry has a case for a price rise. Moreover, the profitability of the industry has been low during the last two years as a result of the recession and it is only now that it is showing signs of some improvement. The main argument against the price rise would be that the industry has a free run of the sheltered market for 75 per cent of its output. So long as profits are improving, as they are now, the industry has to explain why it must seek to make a profit on every category of product.

Radios: Wrong Accent

THE Union Minister in charge of the Department of Electronics recently claimed that India would be exporting radios worth Rs 20 crores by 1974-75. But, as is the case with most official pronouncements of this nature, the Minister did not indicate what the basis of this export target was nor did he say what specific policies Government intended to pursue to achieve it. True, radio exports have gone up sharply from Rs 7 lakhs in 1967-68 to Rs 1.5 crores in 1969-70 and are estimated to rise further to Rs 4 crores in the current year. But even if this target is realised, exports worth Rs 20 crores by 1974-75 remain a far cry, especially considering the cost structure of the industry.

High costs are already a serious obstacle to larger exports. It is estimated that our costs of production of components are higher than Japan's by about 150 per cent in the case of condensers

and 200 to 300 per cent in the case of valves, resistors, etc. Dependence on imported raw materials is a factor responsible for high costs of components; so is excise duty, as the radio industry never tires of complaining. But more important is the illogical fragmentation of production among a large number of units.

Exports have been hampered also by the limited capabilities of small and inexperienced exporters in the radio trade. Out to make quick profits, these traders-cum-exporters have generally paid scant attention to quality, design and packaging. They have also been neither keen nor able to conduct publicity campaigns for Indian radios in export markets.

The bigger manufacturers have been complaining that the restrictions imposed on them by Government with a view to encouraging small-scale producers come in the way of exports. Two points need to be noted here, however. First, for all the efficiency and economies of scale that they lay claim to it was only competition from enterprising small-scale producers which persuaded the big manufacturers to cut prices in the local market. Second, the large units, all of whom have tie-ups with foreign manufacturers of internationally known brands of radios, were initially most reluctant to enter the export market. Apart from official pressures and incentives (in the form of import replenishment, etc), a major factor responsible for their new-found enthusiasm for exports is the competition for licences for manufacture of television sets. Every one of the big radio-makers is anxious to establish its *bona fides* with Government and run up impressive figures of export earnings so as to strengthen its case for TV manufacture (and for expansion of radio capacity).

Whatever the factors responsible for the recent spurt in radio exports, a thorough reorganisation of the industry is necessary to reduce its costs and to give it a more durable export capability. The reorganisation would not take the form of tilting the balance in favour of large-scale or small-scale producers. The objective will have to be to achieve maximum economies of scale in assembling and marketing (both internal and export) at the one end and in production of every individual component at the other. Such a policy would discourage too large a number of brands and assembling units, but it would also prevent production of components by the assemblers themselves or by their captive units. However, caught between the pulls and counter-pulls of small-scale and large-scale producers and given the warped economic logic that it usually brings to bear on such problems, the chances are remote that Government will attempt this kind of a

drastic but rational restructuring of the radio industry.

Some More Crumbs

FACING adversity — and some new brooms — financial institutions have been of late showing some signs of activity. IDBI and IFCI have announced preferential terms of finance to units set up in backward areas; ICICI has followed suit. Essentially, what these institutions are promising is a 1 per cent reduction in interest rate with lower margins and longer periods for repayment. It is not clear how far these relatively limited incentives will actually divert industrialists to backward areas. The package offered by these all-India institutions is distinctly less attractive than what a dynamic organisation like the State Investment Corporation of Maharashtra (SICOM) has been offering. Further, these concessions would need to be woven into the incentives offered by State Governments to have the intended impact.

At the same time, the financial institutions need to give some thought also to resuscitating industrial capacity already established. In fact, this is a precondition to new investment and, despite Government's Micawber-like faith in something turning up, recent data show that the industrial recovery has been slower than anticipated. Many industries, their finances impaired by the recession (the eastern region is only a special example of this), need fresh finance to build up their operations. Unless the financial institutions take some bold risk, the recovery of such units will continue to be slow.

The State-level financial institutions need to be given a fresh look — as regards their organisation, finances and long-term role. Like all Government organisations, these are at present one-man bands with hardly any organisational structure to speak of. Depending on loan operations, their profitability has been low. And, while they have been vociferous in demanding new facilities (for example, the power to give foreign currency loans) which would put them on par with the all-India institutions, they have sought a sheltered market to use their funds, untrammelled by competition from other institutions.

It is necessary that these problems are solved within an institutional framework. Ranging from NSIC, through SFCs, SIDCs, and the all-India financial institutions to the apex IDBI, a whole paraphernalia of institutions now exists — without necessarily covering all the needs of industry. The solution is neither a committee nor another financing agency, but a little intelligence and boldness on the part of the existing institutions themselves.

Chasing Some Very Wild Geese

AFTER protracted deliberation, the Sarkar Commission seems at last to be going into action, judging from its recent advertisement in the Press seeking information and evidence on its terms of inquiry. The terms of the inquiry are broad. The inquiry has not been restricted to the Birla group, as its original proponents had sought; it is to cover what the Dutt Committee calls "large" and "larger" industrial houses and "large independent companies". They were responsible, purely in industrial licensing terms, for 30 per cent of the industrial licences issued between 1956 and 1966, according to the Dutt Committee. Obviously, they represent a large segment of the corporate sector and an inquiry which covers all of them is surely a tall order.

The scope of the inquiry is no less wide. The Commission is to inquire into all allegations listed in the Dutt Committee's Report. There are 11 allegations concerning all houses and companies listed in Schedule A to the notification and another 6 plus 14 concerning specifically the Birla Group listed in Schedules B and C. Inquiry into these allegations involves scrutiny of files and, since "file" notings and decisions are not always self-explanatory, an inquiry into subjective factors governing these decisions. This is a labyrinth one can easily get lost in.

It is necessary that Parliamentary concern and processes must be satisfied. But to what end? It has been already de-

manded that no new industrial clearances are to be given to these houses and companies, assuming they had any inclination to ask for such clearances. And since civil servants — assuming that they are subject to any discipline at all — hop from one job to another, most of those concerned with the transactions which are to be inquired into by the Sarkar Commission have perhaps passed from the scene. The new civil servants dealing with the licences have better guidelines and they will naturally tend to play safe — "on file": Wild goose chasing is a fine art, but it does not make a very good or necessary part of development policy.

GROWTH-CHASER

Bombay
August 19

Send Them No Flowers

I-

IN his letter V S Krishnamurthy (July 11, p 1069) says, among other things, that "Frustrated cynicism is not the backbone of Chinese communism; on the other hand, it is hard work and disciplined behaviour that are so astounding in the Chinese mainland". This is true of a nation which has reached the present day level of Russia or China, but not of one like India which is still in the grip of ex-rulers, capitalists, black-marketeers, etc. We hear day in and day out much loud

LETTERS TO EDITOR

talk by politicians and captains of big business about the need to put in hard work and increase productivity; the same people also exhort labour to be disciplined so as to increase the prosperity of the nation. But what this amounts to is telling the workers: "you earn with your sweat and hard labour and put the proceeds in my bank account". As long as one section of the population is denied the benefits of its own labour, and another, and far smaller, section is allowed to become richer and richer by exploitation, there is no meaning in the advice to work hard, to increase productivity, or to be disciplined.

R S PARIKH

Bombay
August 17

II

THIS is in reference to the letter of V S Krishnamurthy and your correspondent's note ("Send Them No Flowers", July 11, p 1069). First of all, in a democratic country like ours, there is no place for an uncivilised group such as Naxalites, which owes allegiance to another country which is trying to swallow our land and whose mode of operation is barbaric. You cannot expect the police force to be a mere spectator to the arson, loot, murder, etc, etc, being committed by these anti-national and anti-social elements. Your correspondent is right only in his remark that persons like Krishnamurthy have little use for such a society . . . plagued by the Naxalite menace.

S KRISHNASWAMY

Madras

Exports of Engineering Goods

WE read with interest the article "Exports of Engineering Goods" by Dinesh Trehan (July 4, 1970, p 1052).

We regret to note that the information contained in "Table 3: Import Entitlement" (p 1053) is incorrect in respect of crown cork. The import entitlement granted by the authorities for crown cork with vinylite faced cork is 60 per cent of the f.o.b. value. It is 50 per cent for all other kinds of crown corks.

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Calcutta

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	Inland	Foreign (Surface Mail)
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One year	Rs 60	Rs 75, \$ 10.00, £ 4 4s
Two years	Rs 110	Rs 140, \$ 18.75, £ 7 15s
Three years	Rs 160	Rs 205, \$ 27.50, £ 11 8s

Foreign Air Mail Rates on Inquiry

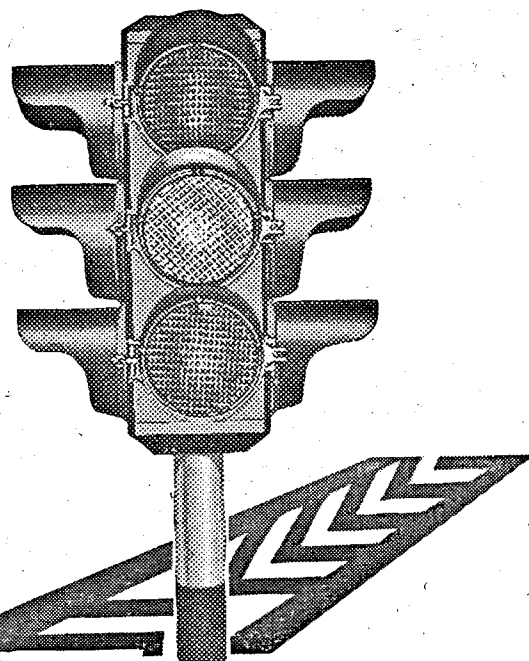
Concessional Rates for Students, Teachers and Researchers

Six months	Rs 13	One year	Rs 25
Two years	Rs 45	Three years	Rs 65

Concessional Rates Are Not Applicable to Institutions

*August 29, 1970

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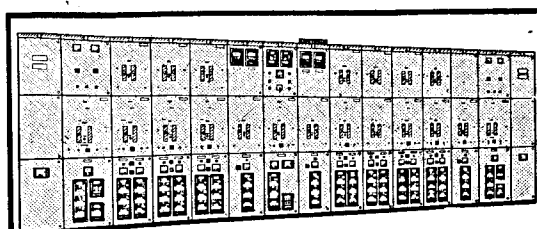
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Nishtar

STOCK markets have taken another big leap forward in their journey to a destination unknown. The 1969 high has been left far behind. Where the new spirit of adventure will carry them is anybody's guess. There is no really dependable norm for evaluating equity prices. Factors, tangible and intangible which go into the making of a demand-supply equation are far too many and they do not easily lend themselves to analysis. It is impossible to quantify the impact of various influences at work at any given time or even over a period of time. Since sentiment knows no logic, changes in market psychology are difficult to predict.

Apart from the continuous flow of encouraging corporate news, there was little else in the week's news to explain the further advance in equity prices; several counters registered really spectacular gains. But news hardly matters when bullish fervour reaches a feverish pitch. The unrestricted freedom to trade under the ingenious 10-day settlement system — no margins at all — has provided bulls with a big stick to beat their rivals. In a situation characterised by acute shortage of floating stocks bears cannot exert their full weight because every new settlement is supposed to start on a clean slate.

That political uncertainties and growing labour unrest, which has assumed menacing proportions at some places, should not have had any unsettling effect on the sensitive stock market shows that it is now quite used to living with tensions. Bulls continue to be the unquestioned masters of the situation because the market is experiencing a scarcity-induced boom. The scarcity will persist until the supply of shares is augmented by new capital issues. This will depend on how soon entrepreneurs are able to shed their shyness. Investors are only too willing to support any sound ventures.

The point has often been made that Government's excessive concern with concentration of economic power and irrational prejudices against the larger industrial houses have blocked investment and kept more experienc-

ed entrepreneurs outside the mainstream of investment. More recent reports from New Delhi point to a welcome change in Government's thinking in regard to issue of industrial licences to big business. Government is said to be veering round to the view that a more pragmatic approach will have to be followed in taking decisions on applications for industrial licences from big industrial houses and that "public interest" alone should be the guiding principle in giving approval to large industrial houses to expand or set up new units.

Stock markets are in a state of gay abandon which is reminiscent of the feverish excitement obtaining in June last year. With forward trading banned, Government cannot raise an accusing finger at speculators. But the recent rise in equity prices which has exceeded even the most optimistic expectations is not without a large element of speculation. Anyone who has some experience of dealing on the stock exchange knows too well that it is easily possible to trade for differences even in cash shares, though not quite so freely as in cleared securities. In fact, manipulation in cash shares is much easier. Since selling is not popular with investors and floating stocks have been steadily shrinking, purchases can be effected without running the risk of being called upon to take delivery on the date prescribed under the trading rules. The difference between investment and speculation is at times only one of the intentions behind the purchase.

Empty Threats

COTTON markets have resumed business after the longest-ever 15-day strike. But the atmosphere remains charged with agitation and suspense. The responsibility for this rests mainly on the men who have been leading the agitation against Government's take-over of the cotton trade. As if what had already been said was not enough, Manubhai Amersey, vice-chairman of the All India Cotton Federation, has again warned traders against co-operating with the Cotton Corporation by divulging the techni-

ques of cotton marketing garnered through the past three centuries. He has stated that the Cotton Corporation and the Maharashtra State Co-operative Marketing Federation do not have the necessary machinery to implement the take-over and that the trade can easily smash Government plans by withholding its technical knowhow. And J K S Nicholson, president of the Bombay Cotton Merchants and Muccadams' Association has also sounded the warning that if anyone from the trade tried to help Government in implementing the take-over scheme he would be 'gheraoed' by the whole trade. This is only a reiteration of Madanmohan Ruia's earlier threat that 'we will make life hell for those who co-operate with the Cotton Corporation'.

It is unfortunate that trade leaders have persisted in their belligerent attitude when both the Union Minister of State for Foreign Trade and the Cotton Corporation's chairman have taken great pains to emphasise that Government is keen to pool the experience of all the sectors of the trade for the efficient running of the Corporation. That cotton is a difficult and intricate commodity to handle may be readily conceded. But Amersey's threat, that Government's take-over plans could be smashed by withholding co-operation, sounds preposterous. It is extremely doubtful whether the trade can present a united front for long. Already traders seem divided on the issue of waging a 'war' against Government. In the event of a strike when the new crop starts moving into the market, the prospect of losing good business is likely to further widen the rift among traders. Besides, it is not very difficult to get hold of men with the requisite skill and experience outside the trading community that has complete allegiance to the All India Cotton Federation which is on the war path. Has not Maharashtra's Minister for Co-operation, Mohite, already informed the Centre that his Government is fully prepared to handle the entire cotton trade in the State?

The Centre is said to have approved in principle Maharashtra Government's proposal for co-operative pooling, ginning, pressing of 'kaps' (raw cotton) and sale of pressed bales. The main aim of Mohite's scheme is that the grower should remain the owner

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of his produce till it is processed and pressed into bales for sale. According to the scheme, growers would be required to sell their produce at specified centres. For making payment, the basic price would be determined by taking the average of the average market prices during the previous three seasons. Ninety per cent of this basic price would be considered as the guarantee price and the farmers would be paid 90 per cent of this guarantee price as advance when they sell raw cotton to the processing units.

After the season is over, the difference between the basic price and the advance paid, will be paid to the growers. If the average sale price of cotton is higher than the basic price, then 50 per cent of the difference between the basic price and the average sale price will be paid to the farmers as rebate and the rest will be credited to the price fluctuation fund. In case the average sale is lower than the basic price, the growers will get the full difference between the average sale price and the advance paid to them. Purchases of raw cotton would be handled by the State Marketing Federation through primary marketing societies. Any scheme which enables farmers to realise better prices for their produce through re-organisation of the marketing structure should be welcomed. Needless to add that, the success of any scheme depends on how efficiently it is implemented.

Reports from New Delhi indicate that the minimum support prices for raw cotton for the new season beginning with September are likely to be raised by five per cent. Since cotton prices have been ruling substantially above the support prices, the upward revision of these prices is not of any practical significance for the immediate future. It is however necessary to take care that support prices are not raised to levels which perpetuate the competitive disadvantage of Indian cotton textiles in overseas markets. Support prices, once raised, cannot be easily brought down.

Marketwise, there is very little to report this week. Turnover has continued to be restricted. There has been no piling up of orders because of the prolonged strike. Prices have developed a slightly softer tendency on ideas of a good crop because of the very favourable weather conditions so far in all the important cotton producing areas. New Delhi is reported to be

considering a proposal to give additional quotas of global cotton on the basis of consumption of such cotton by mills in the calendar year 1969. Initial quota on the basis of spindle working has already been given. For the last three years, global cotton has been distributed to mills only on the basis of their spindle working. The proposed additional quota is intended to meet the criticism that allocation of imported cotton on spindle basis has resulted in several malpractices like clandestine sales of quotas and preparation of false invoices.

New Highs

REDUCED offerings, increased consumer offtake and sustained buying by vanaspati manufacturers have led to a further rise in groundnut oil prices. The spot quotation has been marked up to Rs 5,550 (per tonne) — a new high for the season. A further rise of Rs 75, which seems quite likely, will carry the quotation to a new all-time high. The marked strength in groundnut oil has imparted firmness to the entire market. The maturing September contracts in linseed and castor futures have also recorded new highs at Rs 178.50 and Rs 148.50 (per quintal, respectively). With the distant new crop contracts keeping barely steady, the spread between September and April contracts has widened further to Rs 30 in castor and Rs 38 (per quintal) in linseed. Rarely has the spread been

so very wide.

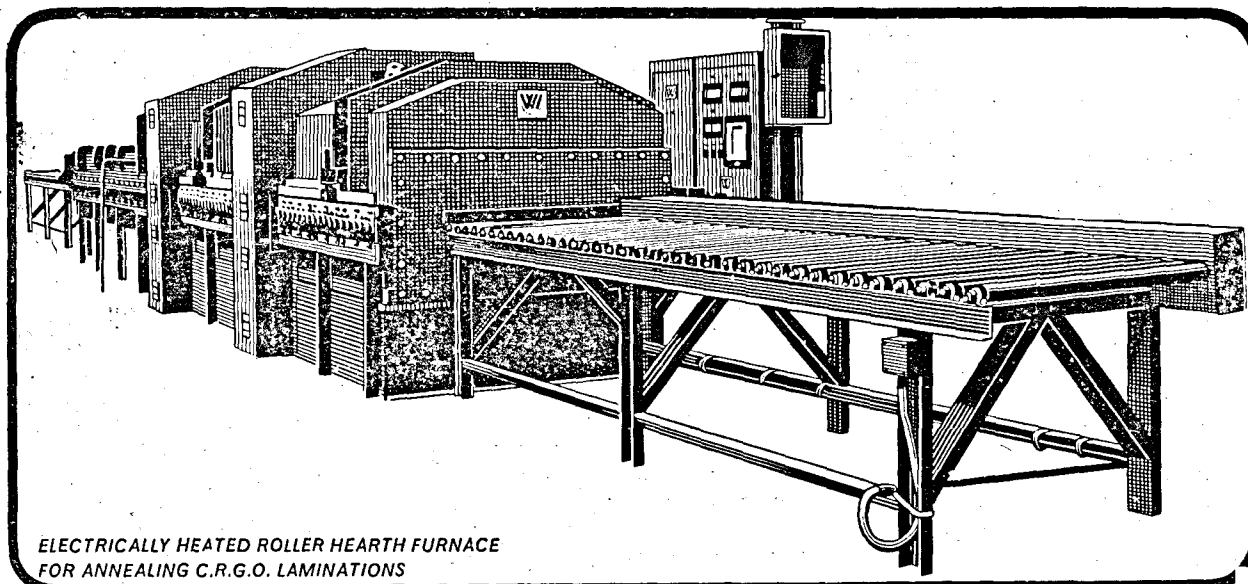
Reports about the progress of the groundnut crop continue to be very encouraging. The State Trading Corporation has purchased 20,000 tonnes of soyabean oil under an advance letter of reimbursement and agreement for the purchase of 1.15 lakh tonnes (making a total of 1.35 lakh tonnes) is expected to be finalised very shortly. Canada is to supply rapeseed worth Rs 4.55 crores under a Rs 9.1 crore development loan agreement. Arrangements already exist for import of about 10,000 tonnes of mutton tallow a month up to March. All this should make for greatly improved supply of vegetable oils in the new season. This is why new crop distant deliveries are quoted at a huge discount below the spot material.

Improved supply position is unlikely to have any favourable impact on export prospects. On the contrary, exports of oilcakes might be seriously affected despite increased availability unless Government takes corrective measures to offset the disadvantage arising from the continuously rising trend in freight rates. With the latest announcement by the Karmahom Conference, raising the freight rate to the UK/Continental ports by another \$5 per tonne from October 1, the total rise in freight since the beginning of the year comes to \$ 9.75 per tonne. The heavy incidence of freight is bound to tell on exports of oilcakes which have already been running well below the best levels attained earlier.

Industrial Finance Corporation of India

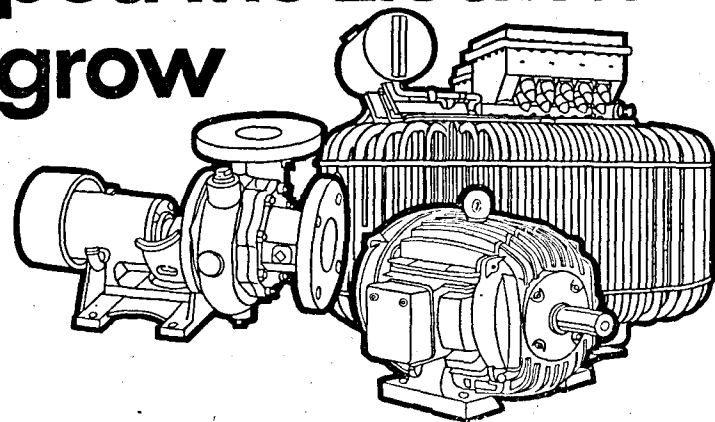
INDUSTRIAL FINANCE CORPORATION OF INDIA has been authorised to entertain applications for financial assistance from public sector undertakings (irrespective of the extent of government's shareholding in them) on the same basis as applications from private concerns. All public sector undertakings, incorporated as public limited companies, are eligible for financial assistance for expansion, modernisation or diversification, or for the setting up of new projects. The facilities offered by the Corporation include (1) loans in rupees and foreign currencies, (2) subscribing to and underwriting of equity, preference and debenture issues, (3) guaranteeing deferred payments for machinery imported or purchased within the country and (4) guaranteeing foreign currency loans raised from foreign

financial institutions. IFCI has so far been entertaining applications for financial assistance from eligible public limited companies in the private sector and also from co-operative societies. Some time back, the Corporation was also authorised to entertain applications for financial assistance for expansion and diversification schemes of public sector undertakings provided such undertakings (i) were public limited companies within the meaning of the Companies Act, 1956, (ii) had declared at least a maiden dividend, (iii) had built up sufficient internal resources to undertake the expansion programmes, and (iv) had not approached, or did not propose to approach, Government for budgetary support for financing the expansion programme.



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95C-11

Chafing under Curbs

Hansavivek

GREAVES COTTON has several plans for expansion and diversification of existing units and for establishing new industries to substitute sophisticated products at present imported. The fate of these projects, however, hangs in the balance owing to the new industrial policy which is concerned about the concentration of economic power. L M Thapar, chairman, complains that the concept of larger houses and industrial units is vague and ill-defined, no account being taken of the number of small units supplying materials and components to the big business. He says his company, together with its associated and subsidiary manufacturing units, has been supporting 1,087 small-scale units which, last year, supplied products worth over Rs 160 lakhs. He deplores that Government has failed to heed the world-wide experience that new entrepreneurs and small-scale industry grow most rapidly in a favourable business climate resulting from the substantial expansion in investment and production of the pace-setting larger organisations. Thapar points out that, while larger units are debarred from undertaking diversification and balanced growth, they are encouraged by an odd 'quirk' of logic to launch really large projects which, if successful, will make them even larger.

During the year to March 1970, Greaves Cotton's sales were only marginally higher at Rs 19.89 crores (Rs 19.87 crores), as it experienced a sharp decline in demand for diesel pumping-sets mainly because of the action taken by certain States to discourage inflow of engines manufactured in other States. Profit margins, however, improved as a result of the reorganisation undertaken during the preceding three years. Gross profit was up, from Rs 1.09 crores to Rs 1.22 crores. Net profit was Rs 64 lakhs (Rs 54 lakhs) to cover equity distribution, raised by half a point to 14 per cent, 2.3 times and to yield a return of 7.1 per cent on the total funds employed in business. Improved sales in the first quarter of the current year together with the healthy order book position indicate that the turnover will resume the upward trend and, with sustained efforts to maintain profitability, results for 1970-71 will be better than the past year's.

Meanwhile, a new manufacturing division has been established for development and production of light engineering equipment for which there is good demand at home and abroad. The paper cone and tube unit achieved substantially higher production during 1969-70 and made increased contribution to profits. The diamond drill bits division has undertaken a substantial expansion in its range of products and will shortly commence manufacture of oil-well drilling bits which have a good demand in the country and also have an export potential. To intensify export efforts in West Asia, a branch office has been opened at Cairo. Export sales last year were up by Rs 10 lakhs, to exceed Rs 63 lakhs.

By and large, the subsidiary and associated companies fared well. David Brown Greaves achieved an increase of 13.6 per cent in turnover over the previous year by manufacturing special purpose gear units and effecting higher sales of marine gear boxes. Ruston and Hornsby (India)'s progress was slower than anticipated because of a sudden drop in demand for diesel pumping sets. Demand for industrial and marine engines was satisfactory and is expected to broaden this year. Greaves Foseco increased its turnover as well as profits as a result of improvement in the working of metallurgical and engineering industries. Expansion and reorganisation of its factory at Chinchwad is nearing completion. Drayton Greaves recorded a 34 per cent rise in turnover and a corresponding increase in profits. The factory has been shifted from Worli to larger premises at Reay Road to cater to the growing demand for the company's products. Improvement in the textile industry and in exports brought about a 70 per cent increase in Greaves Dronsfeld's turnover followed by a corresponding rise in profits. The expansion programme of Crompton Greaves is making satisfactory progress. The company was able to achieve a satisfactory improvement both in turnover and profits despite competition and decline in prices.

SOUTH MADRAS ELECTRIC was offered a compensation of Rs 116 lakhs by Tamil Nadu Government for acquiring its Mayavaram-Mannargudi-Tiru-

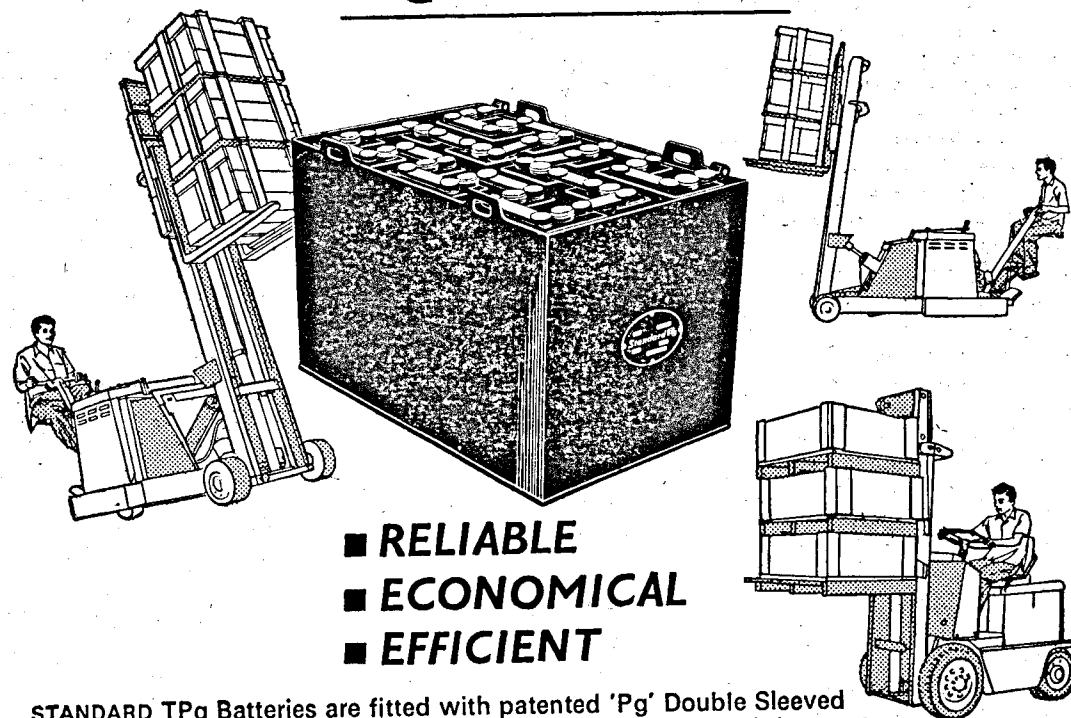
varur electric licence against the company's claim of Rs 203 lakhs. A sum of Rs 50 lakhs was withheld as due to the State electricity board for 'assets not handed over to them' and on account of energy bills, taxes, etc also 'alleged to be due to them'. Of the balance of Rs 66 lakhs received by the company, Rs 34 lakhs have been used for expansion works of the Trichinopoly-Srirangam electric licence and Rs 31 lakhs are reserved for making capital refunds to the shareholders. In the first instance, the holders of preference shares will be repaid Rs 22 lakhs, sometime after December next. During the year to March 1970, sale of energy brought in Rs 1.52 crores against Rs 1.33 crores in the previous year, and gross profit was Rs 35 lakhs against Rs 29 lakhs. Net profit amounted to Rs 18 lakhs (Rs 14 lakhs). Out of this, the unchanged equity distribution of 11.5 per cent and the usual dividend on preference capital will together absorb a little over Rs 10 lakhs.

ESTRELA BATTERIES proposes to undertake replacement of old and worn-out machinery, balancing of various departments in the factory, manufacture of tubular plastic containers and installation of additional 60-million-cell capacity, which will together require over Rs two crores. Negotiations have been initiated with financial institutions for long-term finance. Besides, a rights issue is contemplated for raising part of the additional funds required for these projects. During the year to March 1970, the company was able to step up its net sales from Rs 3.95 crores to Rs 4.71 crores but, with contraction of margins owing to all-round rise in costs, gross profit slipped from Rs 55 lakhs to Rs 41 lakhs. Net profit, however, was only a shade lower at Rs 17 lakhs because of the reduced tax liability, and covered the unchanged 12 per cent equity dividend 5.6 times. The net return on the total capital employed worked out at 8.75 per cent.

SANDVIK ASIA expanded its net sales from Rs 2.91 crores to Rs 4.81 crores, and gross profit from Rs 56 lakhs to Rs 95 lakhs, in the year ended March last. Net profit was Rs 27 lakhs (Rs 16 lakhs) to cover equity distribution stepped up two points to 12 per cent two-fold. Net return on total funds employed in business came to 6 per cent. Exports during the year increased more than fivefold at over Rs 22 lakhs.

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'Annihilation of Class Enemies'

CPI(ML) Tactics at Critical Point

Sumanta Banerjee

THE present differences among Indian Maoists about tactics highlight some of the basic problems bound to be faced by any group planning to organise a revolution in the current Indian situation.

As suggested by various Maoist groups outside the CPI(ML) and by Charu Mazumdar's latest comments in the CPI(ML) mouthpiece, *Liberation*, the differences relate to the latter's thesis of "annihilation of class enemies", the Naxalite attacks on educational and other institutions in Calcutta, the CPI(ML) distrust of mass fronts and Mazumdar's stress on conventional weapons like swords and spears instead of firearms.

EXCELLENT FORESIGHT

The Indian Maoists were not very wide off the mark when they chose the rural areas to build up revolutionary bases. Their selection of Naxalbari—an area inhabited by the most exploited landless labourers and sharecroppers—back in 1967 is a tribute to their foresight about the potentially explosive situation in the Indian countryside and the resultant possibilities of extending their bases. Events of the next few years—forcible occupation of lands in different States, unrest among tribal landless labourers, increased Naxalite activity in Srikulam in Andhra Pradesh and Gopiballavpur and Debra in West Bengal—lent force to the then Home Minister Y B Chavan's ominous warning, at the conference of Chief Ministers in Delhi in the last week of November 1969, that the "green revolution may not remain green".

Since then several developments have taken place. The Centre has come to recognise the critical role of the hitherto slumbering countryside in determining the stability or fragility of Government. Assurances of speeding up land reforms are being made frequently. The Achutha Menon Ministry in Kerala sought to get the struggle off the lands and into the courts by passing reforms legislation. The parliamentary Leftist parties are competing for the support of the peasantry by initiating the "land grab"

movement in a bid to satisfy at least a section of the vast mass of land-hungry peasants.

The CPI(ML) feels that these measures and movements will not cut much ice, primarily because of the inevitable sabotage of land reforms by the built-in resistance of the feudal superstructure in the villages, the almost impossible prospect of satisfying the bulk of the landless labourers with the little amount of available surplus land and the bleak future of those few who would become owners of tiny, uneconomic holdings. On this assessment, the party has rejected the slogan of redistribution of land within the existing framework and has given instead a call for smashing the feudal relations in the villages by "liquidating" class enemies and setting up liberated zones. "...the agrarian revolution must await the smashing of state power. To attempt an agrarian revolution without first smashing the state machinery is straightforward revisionism" (*Liberation*, November 1969).

But the hunger for land is a force to be reckoned with in the countryside at the present moment, however true the CPI(ML) assessment of the long-term effects of land reforms might be. It is precisely on this point that the Andhra group of Communist revolutionaries led by Nagi Reddy differs from the CPI(ML). In a document entitled "Problem of People's War", the group gives a vivid description of the mood of the poor peasants and agricultural labourers: "The countryside resounds with their agonising cry for having been deprived of any claim to the land, the very same land on which they have been sweating and toiling for generation after generation, for having their small patches of land usurped by the landlord towards the repayment of a paltry sum of loans and, very often, by use of force. They would therefore be very much prepared and eager to not only recover their own lands usurped by the landlords but also to seize and distribute among themselves the land owned by the landlords." At the same time, the Andhra group recognises the need to

co-ordinate the struggle for land redistribution with intensive preparation for seizure of power, since "victories achieved in such struggles can be defended only by seizing political power into their own hands. This could be achieved through People's War alone" ("Immediate Programme").

Till now the CPI(ML)'s programme of "annihilation of class enemies" has consisted of killing village jotedars, moneylenders and notorious characters. It should be conceded that up to a certain point, a Red Terror of this type, which kills a hated individual and intimidates a hundred similar characters, is effective in eroding in the mind of the meek, oppressed poor villager, the fear of the rural vested interests. But unless the revolutionaries are able to create a liberated area and provide real protection and security for the peasants, thereby freeing them from the demands of the state, unless they can create a counter-community and undermine the power of the administration, a mere string of individual acts of terrorism would hardly sustain the movement. Perhaps the CPI(ML) tactics in the countryside have reached a critical point and hence the misgivings among its ranks about the slogan of "annihilation of class enemies".

DIFFICULTIES IN CALCUTTA

In trying to reproduce these tactics in Calcutta, the CPI(ML) has run into more serious difficulties. While daring raids on police stations or assassination of notorious policemen could evoke admiration among the common people long harassed by the police, attacks on schools or hospitals would only antagonise these same people who, judging by newspaper reports, have started resisting such attacks.

Moreover, there is a strong suspicion that the notorious lumpen-proletariat of Calcutta have joined the ranks of the Naxalites and are on the rampage. The situation is also being exploited by interested parties to finish off important trade union or local leaders belonging to the CPI or CPI(M). Instead of dissociating itself from such acts, the CPI(ML) leadership has claimed them as necessary steps in the programme of liquidating class enemies.

What could be the motives? Three distinct possibilities emerge. First, the

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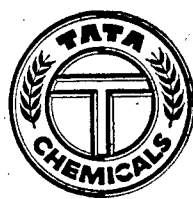
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ECONOMIC AND POLITICAL WEEKLY

CPI(ML) might have decided to bring about a situation of chaos and anarchy to undermine the people's faith in the existing order. These are the tactics of radicalisation through disruption. A complete breakdown or collapse of the political apparatus might create an opening for a takeover by a resolute minority of revolutionaries, as happened in Russia.

Such tactics can yield the desired results. Some recent strikes—the 11-day strike on the North-East Frontier Railway, cutting off Assam and other strategic areas, the strike at Durgapur—have exposed the vulnerability of Calcutta and other centres to disruption. Breakdown of the supply of goods and services upon which a city depends and which is becoming a common phenomenon in Calcutta due to various factors can cripple for some time the state's repressive organ—the police force. If, meanwhile, the rural bases surrounding the city are well-organised, there could be a collapse of the city-based power structure. But mere disruption does not yield a short-cut to seizure of power. The strikes in 1968 paralysed life in France. But the absence of adequate political consciousness among the workers and the lack of a revolutionary lead frustrated the hopes of the young radicals.

INVITING REPRESSION

The CPI(ML) is yet to gain influence among industrial workers who are still generally interested in asserting their claim to an appropriate share of the economic product rather than in making revolution. It is in this connection that the other Maoist group in Calcutta, led by Asit Sen, opposes the CPI(ML)'s neglect of the trade union movement. They feel that the workers should not be left at the mercy of revisionist trade unionists and the struggle for wages should be elevated to a political level and co-ordinated with plans for armed revolution.

Moreover, the CPI(ML) has not attempted to neutralise and gain control of an important instrument of the state—the army—which is powerful and well organised enough to crush a handful of Naxalites.

This leads us to the second possibility. Perhaps the CPI(ML) leadership wants to invite ruthless repression by the ruling class. This, it may be hoped, would precipitate a polarisation of forces in the long run. Indiscrimi-

nate arrests or other forms of repression, as being indulged in by the CRP today in West Bengal, would force many liberal Leftists to put up strong resistance and finally merge with the Naxalites. The posting of the Central Industrial Security Force at Durgapur and the arrests of trade union leaders there have compelled the CPI(ML), for instance, to launch a strike on a purely political issue and radicalise its policies.

REVOLUTIONARY CONSCIOUSNESS

In this context, Naxalite violence plays an important role. Instead of allowing the ruling class to take up the role of the mediator between the landless labourer and the landlord, or the worker and the employer, it hopes to force the state to side with the exploiters. As indicated earlier, both the Centrist and the Leftist parties are trying to channelise the rural mass unrest in reformist directions, much in the manner of Gandhi who sought to divert mass discontent and take the wind out of the sails of the armed revolutionaries of the thirties by launching the Salt Satyagraha. In the opinion of the CPI(ML), this might blunt the edge of the revolutionary consciousness of the people and sow among them illusions about the intentions of the bourgeoisie. Naxalite violence would detract the ruling class from this path and expose the repressive aspects of its political system.

Thus the separation of the exploited and the exploiter would be restored. The CPI(ML) leadership in justification of this can fall back upon the classical Marxist position on class polarisation. "As long as the rule of the bourgeois class had not been organised completely, as long as it had not acquired its pure political expression, the antagonism of the other classes likewise could not appear in its pure form" (Marx: "Eighteenth Brumaire of Louis Bonaparte"). Marx and Engels were more forthright in their message to the working class leaders: "Above all things, the workers must counteract, as much as is at all possible...the bourgeois endeavours to allay the storm...Far from opposing so-called excesses, instances of popular revenge against hated individuals or public buildings that are associated only with hateful recollections, such instances must not only be tolerated but the leadership of them taken in hand" ("Address of Central Committee to Communist League", March 1850).

But in adopting such tactics, the leaders must take into account the determination of the people to survive repression and the ability of the ruling class to combine concessions with force. In 1950 the Communist guerrillas in the Philippines achieved success on the crest of a wave of agrarian unrest. But by 1953 they were on the run, mainly because of the policy of Magsaysay who has been ever since upheld by the Americans as the classic example of an effective challenge to the Communists. Magsaysay launched a programme of "all-out-force-and-all-out-friendship", offering sops to the hungry peasants in the shape of land reforms and isolating the Communist leaders by sending them to jail.

It is to be seen whether the Indian ruling class can deal out effective concessions in the present economic set-up. Its ability in this direction is severely limited in West Bengal—the heart of Naxalite activities. The prospect of distributing the available surplus of 7,94,410 acres among 17,72,000 agricultural labourers is patently absurd. The possibility of a major section of these labourers being absorbed by industries is also remote in view of the already existing industrial unemployment and the reluctance of investors to expand industries in West Bengal. The crisis has reached a stage when it is beyond solution within the present set-up.

If this is set against the background of frustration and despair of the people of West Bengal in the wake of the failures of the two successive United Front governments, one can gauge the limitations of political concessions to the state. There is a growing disillusionment with constitutional politics.

LIBERATED ZONE IN BENGAL

From this emerges the third possibility. The CPI(ML) might as well think that West Bengal is mature enough for a revolution. Since the socio-economic crisis and the mood of the people of the rest of India are yet to reach this stage, the revolutionaries might think in terms of consolidating their base in West Bengal. With the ruling party at the Centre getting more and more disarrayed and demands for a loose federal structure gaining momentum all over India on the one hand and on the other hand the grievances of the Bengalis against the Centre gradually moulding a secessionist mood, the Communist revo-

lutionaries might hope to set up one day a liberated zone in West Bengal. Its geographical position could also be a favourable factor. It can provide the revolutionary base from where to go forward to final victory.

In such an eventuality, the role of the army and the bureaucracy should be taken into account. Till now, the CPI(ML) has been curiously indifferent to the possibility of a military coup or even to its ability to resist military repression. The persistent tensions, through which we are passing today, are likely to sustain large defence budgets and give added prominence to military opinion and leadership. The authoritarian character created by the traditional family, the appeal of order, discipline and efficiency to the urban classes, which are now marginal features of our political life, can be easily mobilised by a military leadership in the right circumstances.

The recent arrests of Kanu Sanyal and some top CPI(ML) leaders of Andhra Pradesh and the killing of several others, must have brought home to the Naxalites the lesson that the repressive apparatus of the state has not yet been reduced to a "paper tiger", although "it has not been possible for the police to penetrate any of the party's over 700 operational squads" in West Bengal (*Statesman*, Calcutta, August 20, 1970).

The differences among the CPI(ML) ranks indicate the beginnings of a process of heart-searching. There are growing doubts about the wisdom of Charu Mazumdar's stress on the importance of men over weapons and his obsession with bows and arrows. Reports of the use and manufacture of firearms by the Naxalites suggest that the ranks have started defying the old leader. The discovery of an arms cache in the course of the arrest of Kanu Sanyal reveals that the latter does not see eye to eye with Mazumdar.

To the extent that revolutionaries did succeed in other countries, they often did so in large measure by avoiding slavish adherence to past models and displaying ingenuity in devising new social mechanisms and new policies for situations without precedent. Should the Indian Communist revolutionaries shed their habit of worshipping Mao and become a little more aware of the realities of the Indian situation, they will be truly a force to be reckoned with.

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Codes and Conscience

Nireekshak

WHETHER the Press Council's decision, now pending, on *Tribune's* complaints against the Haryana Government will help evolve a uniform code for the placing of Government advertisements paid for from public funds remains to be seen. *Tribune's* complaint is against the State Government's peremptory stoppage of advertisements to it on the ground, as advanced by the Government, that the advertisement rates charged by the paper were too high. A decision on this complaint can be reasonably expected to cover only the validity or otherwise of the rates charged by *Tribune*, what rates of advertisement a newspaper may charge in what circumstance, and a State Government's right if any to question the rates so charged or obligation if any to accept them and advertise. That might be of some help.

But the case does not cover other instances of withdrawal of Government advertisements for other reasons as, for example, from *Times of India* by the Uttar Pradesh Government allegedly because of consistent misrepresentation of facts by the paper's Lucknow correspondent, or from *National Herald* and *Patriot* by the Delhi Municipal Corporation as a reprisal against the papers' earlier refusal to publish certain advertisements issued by the Corporation. The Andhra Government too is known to have cancelled its subscription to the Press Trust of India recently and, according to some statements made in the State Assembly, otherwise used advertisements as a weapon to influence or coerce two newspapers, *Indian Express* and *Daily News*.

In such a context Inder Gujral's announcement in the Rajya Sabha of the Union Government's intention to stand by the Press Council's decision in the *Tribune* case, whatever it may be, does not go far enough. Gujral said that the Union Government had already laid down a code for disbursement of advertisements and was "strictly following" it. Are all State Governments also following this code? Apparently not, or they have other codes. It seems advisable, therefore, that New Delhi should take the initiative in evolving a uniform code, taking the Press Council's ver-

dict in the *Tribune* case, when it comes, as the new starting point.

A code of conduct for journalists, to which also reference was made in Parliament, is a different matter. For here the responsibility rests mainly with journalists themselves, as the Minister of State for Information rightly said, and journalists seem for one reason or another to be unable to hammer out a code. Apart from hoary legends and some rules of thumb—and a passable code for the reporting of communal riots and commentaries thereon framed by the Press Council, and another similar one by the All India Newspaper Editors' Conference—there is hardly anything to guide the journalist except his own conscience. The main difficulty, of course, has been that professional organisations in this country have rarely seen eye to eye with one another on anything but the more innocuous questions like the editor's right to blue-pencil a reporter's copy—if that!—and the sub-editor's obligation not to commit spelling mistakes. The Indian Federation of Working Journalists, the largest and the most representative national body of journalists, has a job of prime importance awaiting it. And now that a Press Council is a reality, a start must be made without delay in this direction as the Council is in a position to function as a clearing house for all sections of the Press.

That the Press is not always its own best friend in this and other matters affecting its freedom seems unfortunately true. A recent editorial (August 8) in *March of the Nation*, for example, sought to read a homily to the Press on the subject of "the PM and the Press". "The ageless flirtation between the Prime Minister and the Press can be either the result of mutual admiration borne out of natural love or a mechanism well-lubricated at every joint", it said. "After reading the reportage on the no-confidence motion, one is inclined to believe the latter theory." *March* then went on to describe what an "honest report" of the debate on the no-confidence motion should have been like which was as good an example as any of what an "honest report" ought not to be.

Hindu too had some observations to make (August 7) on the freedom of reporting, though from a vastly different angle and for a more worthwhile purpose. *Hindu's* intent was to free the Press from some of the irksome restraints now imposed on it by the law. Its starting point was the Law Commission's recent declaration that Section 26 of the Post Office Act violates Article 19 of the Constitution. The Post Office Act empowers Central and State authorities to seize any kind of postal article "in the interest of public safety and tranquillity". In *Hindu's* view the Law Commission's declaration provides powerful support for repealing some of the archaic laws enacted "by the British Raj...to keep tight rein over the thoughts and actions of the subject Indians". Recalling that several "press messages filed by correspondents in the field" had been "arbitrarily withheld from transmission or delayed too late for publication by minor telegraph masters and district officials" the paper said "it is high time the Telegraph Act [too]...was amended to prevent official interference with the transmission of press messages. The Sea Customs Act also should be suitably amended, it said, to prevent the authorities from seizing foreign publications "critical of Government or containing uncomplimentary material about India and Indians".

Another plea for "joint efforts" by the Press and public for safeguarding press freedom was made recently by *Hindustan Standard*. A delivery van of *Standard* had been burnt in Calcutta by hooligans who, the paper said, "belong to that small intolerant group which believes in regimentation of thought. As a first step towards the goal it seeks to mute the free voice of the Press". Referring to similar attacks in the past on *Statesman*, *Basumaty*, *Amrita Bazar Patrika* and *Jugantar*, the paper argued that the "task of the Press" in the circumstances was to "do its duty come what may". Since "nothing can be a bigger disaster to a free community than suppression of freedom of the Press, for where the Press is in chains the community soon finds itself in fetters", it was essential to avert "that tragedy" by the "joint efforts of the Press and the forward-looking citizens, who must unitedly fight the new menace to freedom".

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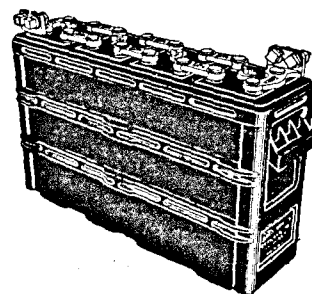
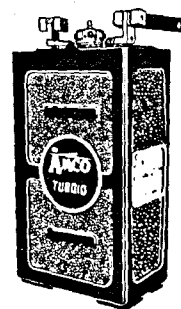
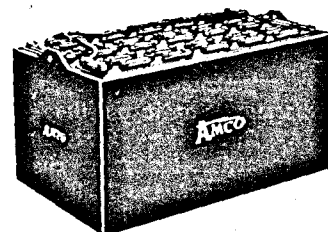
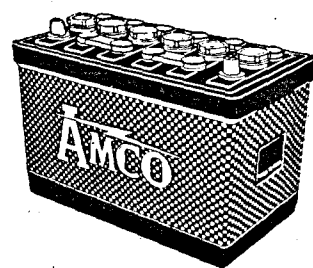
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Review of Management is published four times a year, on the last Saturday of February, May, August and November.

Manuscripts intended for publication should reach the Editor at least six weeks ahead of the date of publication.

Re-incarnations Too Soon

THE abolition of the managing agency system has turned out to be a much less drastic reform of corporate organisation than critics of the system had at one time hoped it would be. This has happened not because their criticisms against the system were not valid, but because the impulses which had led to the emergence and growth of managing agents have survived the system and have been able to find new institutional manifestations. Enormous ingenuity has been expended on devising artifices which will achieve the basic purposes which had been served by the erstwhile managing agencies. Not that Government was not aware of this danger; but, as usual, it could not be persuaded, at the time of the abolition of managing agents, to give sufficient thought to the consequences of its action and the problems that were likely to arise. However, the Minister for Company Affairs has now promised to move Parliament for amendment of company law so as to check malpractices by 'new incarnations' of managing agents.

From a limited view of the problem, the main directions in which action has to be taken are not difficult to discern. First, abolition of managing agencies has left hanging in the air the future of the employees of former managing agents. With a little foresight, Government could have taken rule-making powers to ensure their absorption in the managed companies, on whose earnings they had been in any case dependent.

Second, while abolishing the managing agency system, Government did not lay down alternative arrangements for management of companies or require companies, till then managed by managing agents, to make alternative arrangements. Given a free hand, companies have sought to pass on a variety of functions to different bodies, all invariably re-incarnations of the erstwhile managing agents. The more far-seeing business houses had begun well in time to set up 'consultancy' firms whose services have been engaged by the erstwhile managed companies. Some others have proposed handing over specific functions — maintenance of share registers, keeping track of share transfers, providing guarantees, etc — to other bodies. Many companies have appointed partners of former managing agencies as managing directors or full-time directors to manage their day-to-day affairs.

Superficially, these arrangements seem innocuous and normal enough and there are parallels for them in other countries. But a close look at their actual operation betrays their real purposes which are to ensure continued control of the erstwhile managing agents over the companies managed by them and to safeguard the remuneration they had been receiving as managing agents. The new 'functions' which have been thought up just provide the cover, being in most cases unnecessary or trivial enough to be performed within the company. For instance, even some very large companies have made out that they do not have the capacity to maintain their share registers and so handed over the function to associate companies — for large fees. Professional company registrars could render valuable specialised services, but the arrangements which have proliferated recently bear no resemblance to this kind of professional specialisation. Again, the newly emerged 'consultants' have obtained contracts mostly from companies in erstwhile associated groups, making the whole arrangement more than a little suspect. Most of the former managing agents have no staff or organisation to render any genuine consultancy services. Besides most consultants have taken long-term 'general consultancy' contracts with remuneration fixed as a percentage of profit — and a minimum payment thrown in for good measure! Clearly, all this adds up to total perversion of the legitimate functions of genuine consultancy organisations. And as for the proliferation of managing directors and full-time directors, almost all companies, irrespective of size, seem to have decided that they need at least two of them. The large remunerations fixed for them bear no relation to either their qualifications or their capacity to contribute to management.

Given the pattern of share-holding and the total ineffectiveness of shareholders' associations, the fact that the arrangements to accommodate re-incarnations of former managing agents require shareholders' approval is no safeguard at all. Slightly more could be achieved perhaps by legislation aimed at curbing fraudulent consultancy and similar arrangements and payments, especially on a percentage-of-profit basis, to so-called managing directors and full-time directors unrelated to management contribution. But in an economy where the pressures for greater technological and managerial efficiency are as weak as they are in ours, such controls, even assuming that they can be and are enforced, can make little difference to the larger purposes of abolition of the managing agency system which were to snap the ownership-control nexus and to professionalise corporate management.

Marketing Management

S Chatterjea

Marketing Management and the Indian Market edited by S Neelamegham; Vikas Publications, 1970; pp 459; Rs 36.

THIS is a carefully chosen collection of 38 articles on marketing. Most have something new to say and all are of topical interest to the Indian marketing scene where, in the words of David Moore, the dominant values in industry are shifting "from those of the manufacturing executives to those of the marketing executive".

As A Das Gupta says in the Foreword, there is no shortage of books on marketing, but it is quite enterprising of the present compiler to have attempted a book particularly focused on problems of marketing in India, looking for as many writings from Indian sources as possible. At the current stage of development of Indian marketing, this book, therefore, will be invaluable both to the student of management as well as those practising marketing.

In the section devoted to marketing and the Indian economy, S Neelamegham argues effectively that marketing by itself cannot create purchasing power, that by converting latent demand into effective demand and by routing purchasing power in the desired direction it can catalyse purchasing forces and promote a high level of economic activity. Boyd and Sarin define the "marketing concept" and say that the specific rationale for a company's existence lies in its ability to satisfy some aspects of consumer demand. This is open to argument and does not fully justify the existence of many companies not fully beamed to a consumer market. Perhaps the definition is too limited. The authors themselves quote Levitt to say that "management must think of itself not as producing products but as producing customer-creating value satisfactions".

The section devoted to consumer behaviour is thoughtfully compiled. It is deduced that motivation by itself is most often a secondary factor in consumer choice, although it underlies all consumer behaviour. Also that the cognitive-habit dimension does not explain all purchasing behaviour.

That most pitiful of all consumers — the Indian housewife — will find a friend in P S Lokanathan ("The Consumer at Sea"). Though much beset by printer's devil, Lokanathan effectively describes the dilemma of this much harassed individual, to whom the basis

of Indian planning seems to be jam tomorrow, jam the day after tomorrow, but never jam today. Sluggishly rising production has not kept pace with the growing population or the increased money supply injected into the economy. There would have been some saving grace if the compensatory mechanism of savings had operated powerfully enough to offset the inflationary consequences of Government's massive outlays. If 100 million consumers are still below the line and adulteration of food ranges from 16 to 66 per cent (at an all-India average of 33 per cent), if

consumer protection is so amply legislated for but so inadequately enforced, the need for imaginative marketing discipline is all the more real.

A passing thought from the reviewer. If Latin has been systematically mispronounced by the judiciary over the centuries, does it also have to be so consistently and needlessly misused by the management theorists? If we mean "by itself", need we say "per se" so often? A marketing man "ipso facto" does not really have to love both Latin and Greek. *Omnia vincit amor et nos cedamus amori.*

Personnel Administration

R Banerjee

Dynamic Personnel Administration—Practices in India by M N Rudra Basavaraj; Indian Institute of Personnel Management; pp 743; Rs 30.

AMONG the many shortages with which we are faced in this country, perhaps the biggest is in the field of information. This is particularly so in subjects of concern to Indian management which, apart from problems of technology and finance, is faced with the need for motivating and training a large body of people to undertake the tasks that an industrial society demands.

M N Rudra Basavaraj's book on "Dynamic Personnel Administration — Practices in India" is, therefore, a welcome addition to the vast amount of information we require. The author is a member of the faculty of the Vaikunth Mehta National Institute of Co-operative Management, and one gathers that the data presented in this book are a prelude to further study and research. The book covers the personnel management practices in a cross-section of 32 public, private and co-operative enterprises. The coverage is, however, somewhat wider because some of these business houses cover several companies. Apart from the limitation imposed by the size of the universe, the study suffers somewhat by an omission. It is not clearly indicated whether it covers practices employed by these organisations both for their management as well as non-management staff. Even if it does, it

fails to distinguish between the practices in regard to these two categories, and this, one feels is extremely important in today's context. For instance, there is a fairly common belief in management circles that there is so much industrial unrest in the public sector, in spite of advanced personnel practices, because the practices in regard to management staff are not equally enlightened. The study could have revealed whether this is true.

The author clearly states in the beginning that the study is only concerned with "what is being done" and "how", and that the question "what is the best way of doing it?" will be the next stage in the research programme. Yet towards the end, Rudra Basavaraj is tempted to draw conclusions on text-book principles, without the opportunity of relating these principles to actual results in regard to morale, productivity, industrial peace and profitability, obtaining in the organisations studied. As a good research worker, he could have left this till the end of his total programme.

Apart from these relatively minor drawbacks, the general manner in which the material has been collected, arranged and presented is commendable, and the book should prove useful to practising managers as well as those engaged in management education.

Economic Forecasting in India

Phiroze B Medhora

The planning system has created widespread interest in annual economic forecasting which has now become something of a pastime among economists and research organisations.

However, given the data gaps in the economy, these attempts at forecasting remain pioneering efforts.

The main areas to which attention needs to be directed are estimates of levels of investment, factors governing demand for manufactures and discontinuities, if any, in trends in tertiary income.

The greatest ignorance perhaps prevails in respect of flows of income and timing of income generation. In countries where the secondary and tertiary sectors account for the predominant part of national income, it is natural to assume that income flows are regular over the year. Obviously, the assumption is not valid for countries like India.

Knowledge of regional flows of income and goods is, similarly, lacking. Before economic forecasting can be made more sophisticated, much research needs to be done on various subsectors of the economy and income-flows between them.

AS in other countries, economic forecasting in India is of more recent origin than meteorological forecasting; but unlike in these countries, in India it is heavily dependent upon the weather. It is, therefore, subject to some hazards of meteorological forecasting — in addition to the hazards normal to all economic forecasting.

The first tentative attempts at economic forecasting can be said to have begun with planning. The primary variable on which planning concentrates is national income, and the first impact of planning is on national income data, thus improving their statistical base. After V K R V Rao's attempts at calculating national income in the early thirties and R C Desai's thesis on national income in the late forties, the effort was put on an organisational basis by the setting up of the National Income Committee whose two-volume report forms the basis of present national income calculations.

NORMATIVE EXERCISE

The effort at national income forecasting under planning was essentially a by-product of the targetology inherent in planning. Thus it was essentially a normative, rather than a calculative, exercise: the objective was to estimate what the national income *should* be, rather than what it *would* be — and, of course, this result was related to the planning effort.

Such normative forecasting spanned two time-periods: a five-year period and a longer (twenty to twenty-five-year) perspective planning period. The five-year period had a more definitive basis, relating forecasts specifically to plan outlays and policies. Even within the normative field, thus the long-term forecast was more normative — a statement of intention rather than a firm es-

timate. Table 1 indicates the national income forecasts under the five-year plans.

It is necessary to examine the basis of this forecasting system. First, it is policy-biased in the sense that it is based on certain assumptions regarding policy — that is, the forecasts are not policy-neutral or policy-independent. Secondly, the forecasts are related most firmly to investment inputs: in fact, they are calculated on certain investment: output relationships. Thirdly, the forecasts assume a simple sequential relationship: leads and lags are either not worked out or they are assumed to be subsumed within the consistently progressive annual investment. Fourthly, the forecasts are relevant only over whole plan (five-year or perspective) periods; likely deviations within the time-span are not taken into account.

Even with all these caveats, the plan estimates have not come out well in practice. The estimates were made on a constant price-level assumption, and did not take account of likely price changes, overall and intersectoral, and the impact of such changes on output trends. Even when the overall investment levels were achieved (in money terms), the output levels were not reached for various reasons: the investment: output ratio assumed did not turn out to be correct; there were sectoral deviations in investment; and lags, particularly in investment (gestation) period, were longer than assumed.¹

II

Whatever its other shortcomings, it has to be recognised that the planning system and estimates have had a great influence in creating interest in annual forecasting. Pioneering work in this direction was done by the National Council of Applied Economic Research

(NCAER) which published the first estimate for 1969-70² and, in a separate estimate, by Bhavé and Athreya.³ With interest thus roused, forecasting has become a more generalised pastime among economists and organisations.

For 1970-71 there was an avalanche of forecasts. Besides NCAER,⁴ the Economic Research Unit of the Indian Statistical Institute⁵ brought out an estimate for 1970-71. Moreover, the recently-formed Business Economists Group provided the forum for two papers by Alt⁶ and Bhavé,⁷ which were discussed at the Group's meeting in February 1970 at Bombay.

A further innovation, introduced by NCAER, was to have a mid-term review of the annual estimate; this was presented for 1968-69⁸ and for 1969-70 in its Annual Day publication⁹. The Business Economists Group proposes to discuss a similar mid-term assessment for 1970-71 from Alt and Bhavé at its forthcoming meeting scheduled for November 1970 at New Delhi.

III

The first estimates, for 1969-70, were made by NCAER and by Bhavé and Athreya. NCAER estimated foodgrain output at 102 mn tonnes for 1969-70, an increase of 7.8 per cent in industrial production, and a rise of 5.8 to 6 per cent in national income; it expected the price level to be stable, a normal increase (7.8 per cent) in money supply, a rise of 5 per cent in exports and stable pattern and requirements of imports. Bhavé and Athreya expected foodgrain production to be 97 mn tonnes in 1969-70. They assumed that, with increase in demand, industrial production would grow by 6.7 per cent. National income was expected to grow by 3.4 per cent. They expected the price level to be



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stable or mildly declining and an uncomfortable foreign exchange position.

For 1970-71 four different forecasts are available: by NCAER, by Alt and by Bhave for the Business Economists Group, and by ISI's Economic Research Unit. There is evident a greater sophistication in national income estimates, with an attempt to argue out the basis of the estimates and to provide estimates for subsectors. It is interesting to examine the four forecasts for methodology and estimates.

All the four forecasters depend upon monsoon for estimating agricultural output. NCAER differentiates between foodgrain and other agricultural output: for foodgrain output it takes into account the impact of the new agricultural strategy, to arrive at an estimate of 108 mn tonnes for 1970-71; it hedges the estimate by reference to monsoon, setting a minimum level of 97-98 mn tonnes. Alt forecasts a good monsoon and estimates a 5 per cent increase in foodgrain output in 1970-71. Bhave, basing himself on Sen's observations on behaviour of the monsoons in the past, assumes that the 1970-71 monsoon would be below estimate; this would neutralise the impact of better agricultural techniques and inputs, leading to the same output in 1970-71 as in 1969-70. ISI researchers go in detail into planned increases in distribution of better seeds, etc, and arrive at an estimate of 102-105 mn tonnes of foodgrain production in 1970-71.

The same methodology is followed for non-foodgrain output. NCAER refers to the earlier prevailing price level as influencing non-foodgrain output and the ISI researchers relate their estimates both to prices and to likely acreage shifts. Both these estimates refer to sub-estimates for individual crops (cotton, oilseeds, jute and sugarcane). ISI researchers estimate a rise of 3-4 per cent in total agricultural output. Alt estimates increase in non-foodgrain output at the same level (5 per cent) as in foodgrain output; Bhave, like the ISI researchers, gives a detailed analysis of factors governing the output of individual non-foodgrain crops.

There is some attempt to relate demand factors to industrial production estimates. Of the four, the ISI researchers' estimate is backed by the most elaborate discussion — dealing with past trends in production and idle capacity in various subsectors and *ad hoc* demand considerations. NCAER backs up its estimate by an expectation survey among industrialists, the results of which were still to be received. Alt

TABLE 1: INCREASE IN INCOME

	Five-year Estimate	Per Cent Increase*	Long-term Estimate	Per Cent Increase*
First Plan	1950-51/1955-56	11-12	1970-71	100
Second Plan	1955-56/1960-61	25	1977	100
Third Plan	1960-61/1965-66	30	1975-76	150
Fourth Plan	1969-70/1973-74	32	1980-81	100

* Above base period, which is the first year of the particular plan.

refers specifically to demand factors affecting production of various goods, and Bhave gives detailed estimates of production for a large number of goods, to arrive at the average increase in production. Significantly, there is near-unanimity among the estimators — NCAER forecasts a rise of 8-9 per cent in industrial production in 1970-71, Bhave of 7.3 per cent and ISI researchers of 7-9 per cent.

TERTIARY SECTOR

No attempt is made by any of the forecasters to make estimates for the tertiary sector — transport, power, banking and government services. There is a straight jump to a calculation of overall national income. NCAER forecasts a rise of 6.5 per cent in 1970-71, Alt 5 per cent, Bhave 3-4 per cent and the ISI researchers 4-5 per cent.

Almost all estimators deal with three other aspects of economic trends: foreign trade, money supply and price trends. All of them agree on a possible rise in imports (even if imports of foodgrains go down) in 1970-71 to meet rising demand for imported goods from industry. ISI deals in detail with past export trends, and argues that exports would rise by 6 per cent in 1970-71. Alt forecasts stable imports (but with a change in composition), and a 4-5 per cent increase in exports. All agree that the balance of trade would worsen in 1970-71.

Perhaps the most overt and discerning discussion of price and money supply trends is given by the ISI researchers. They succeed in deriving, on the basis of past data, an equation to determine price change by relation to changes in national income and money supply. On this basis, they estimate an increase of 10 per cent in money supply and 5-6 per cent in price level for 1970-71. NCAER expects a falling trend in foodgrain prices at the level of production assumed by it. Bhave expects a milder rise (than in 1969-70) in agricultural prices and an overall rise of 5-6 per cent in the wholesale price index. Alt assumes that the economy would absorb an increase of 9 per cent in money supply without af-

fecting price stability — given his assumed increases in output. A comparison of various estimates is given in Table 2.

IV

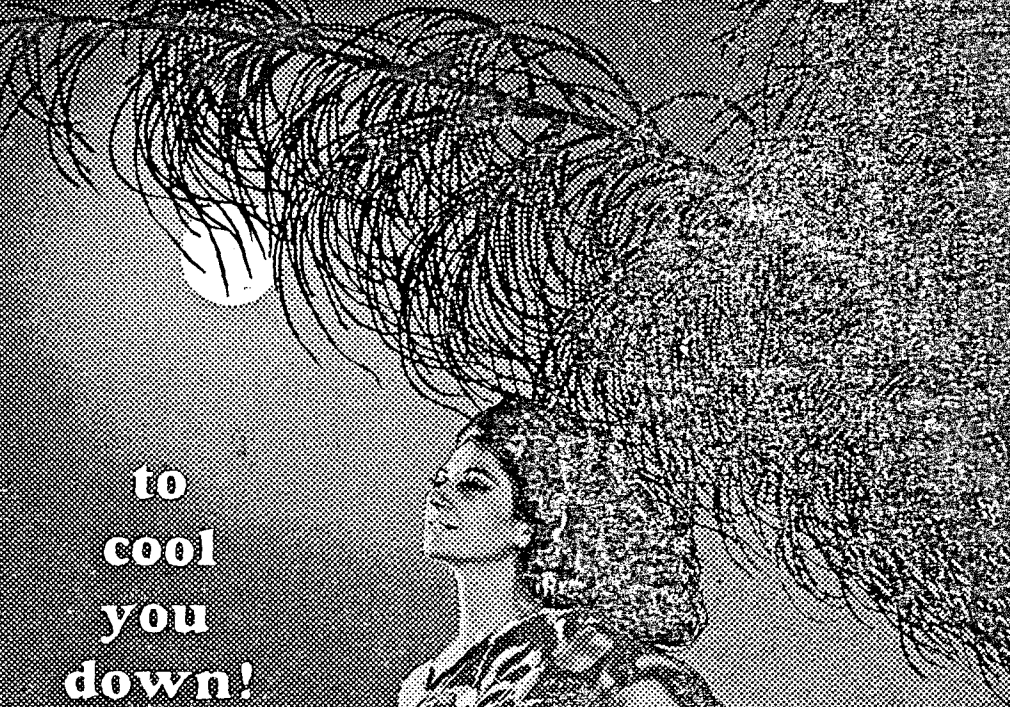
Most of the studies are essentially a mix of income and expenditure methods of estimation to calculate the national income. The main reason for resorting to the income/production method is the large proportion of income derived from agriculture. Since national income estimates are made for the fiscal year (April-March), they are subject to the same hazards as agricultural output. This was most evident in the two papers presented at the Business Economists Group meeting in February 1970: while Alt based his calculations on a "normal" monsoon, Bhave, relying on the agricultural cycle analysis of Sen, argued that the 1970-71 monsoon would be below normal, thus neutralising the rise assumed from better agricultural inputs.

Significantly, despite F A Mehta's pioneering analysis¹⁰ of inter-relations between agriculture and industry, few forecasters have used agricultural incomes as a factor influencing incomes in other sectors. While the role of various factors — agricultural income, private investment, government expenditure — is analysed in influencing industrial production, the analysis remains essentially qualitative in character.

Tertiary activities, deriving mostly from the other sectors, are not analysed separately. Their proportion in national income is no longer small, but it is assumed that they are not subject to abnormal changes. Consequently, a secular trend is generally fitted to the estimates.

Partly because the forecasts are based on the output method, the role of monetary and fiscal policy in influencing economic movements tends to be neglected. In fact, commenting upon the discussion on forecasting at the Business Economists Group meeting, T P Subramonian argues: "Some of the members [of the Business Economists Group], however, could not resist the temptation of making normative observations in discussing an essentially

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TABLE 2: COMPARISON OF FORECASTS, 1970-71

	NCAER	Business Economists		ISI
		Alt	Bhave	
Agriculture				
Foodgrains (mn tonnes)	108	105	Stable**	102-105
Industry (per cent)	+8.9	††	+7.3	+7.9
National Income (per cent)	+6.5	+6	+3-4	+4.5
Foreign trade (per cent)				
Imports	*	Stable**		+
Exports	+5	+4.5		+6
Money supply (per cent)	—	+9	†	+10
Price level (per cent)	—	—	+5-6	+5-6

* + \$ 150 mn in non-food imports.

** At the same level as previous year.

† + Rs 500 crores.

†† A substantial increase, given specific conditions.

predictive subject. Thus the views and recommendations on fiscal or monetary policy were clearly outside the scope of what was essentially an exercise in short-term forecasting for the economy."¹¹

This approach is hardly justified. One of the main objects of forecasting is to determine policy to correct any adverse trends anticipated. In advanced countries, both budgetary and central banking policies are determined on an assumption, often explicit, about the expected rate of growth.

The role of fiscal and monetary policy in influencing the volume of output in a predominantly agricultural country might appear to be limited. However, in India, more than half the national income is now derived from non-agricultural sources; moreover, with government budgets now reaching 20 per cent of national income and government investment at about 5-6 per cent of national income, the influence of government expenditure on economic output (or particular segments of it) is substantial. As Cairncross (who was Economic Adviser to the UK Government) has suggested, "they [forecasts] provide a frame of reference for policy decisions".¹²

Secondly, variations in output lead to changes in prices which can be influenced (corrected) by fiscal and monetary policy. In India, it has been noticed that the price-elasticity of agricultural supplies is large, and this is amenable to being influenced through buffer stock operations. Analysis of the implications of an economic forecast for monetary and fiscal policy is, therefore, relevant to India.

V

Essentially these efforts at economic forecasting have to be recognised as pioneering efforts, given the data gaps in the economy. Considerable work is

being done by Samuel Paul¹³ on data gaps, and as this work gets done, the economist's efforts to forecast national income will begin to be distinguished from the meteorologist's efforts to forecast weather.

The main areas to which effort needs to be directed relate to estimates of levels of investment, factors governing demand for manufactures and discontinuities in trends in tertiary income, if any.

As regards investment level, an estimate of investment and capital formation in the Government sector is available in the annual budgets; however, with the expenditure control system prevailing in government, the actuals show an erratic relation to the budget estimates. Investment in the non-government sector is done directly by the saver, or by resources provided directly by the saver (without the intermediation of finance and banking institutions) or by resources provided by finance institutions; no annual series is available on these data.

The tertiary sector is now estimated to provide about two-fifths of national income — against one-third when planning began. Yet, as mentioned earlier, most forecasters seem to ignore this constituent of national income in their calculations. Significantly, according to national income calculations this element is a secularly rising component of national income — as shown in 1965-66 when, despite a 20 per cent fall in primary income, tertiary income rose. While a part of the impact of the fall might be assumed to have been neutralised by higher imports of agricultural produce (amounting to about 50 per cent of the fall in output), this still does not explain the whole change in the tertiary sector. A closer analysis of the relation of tertiary income to income from primary and manufacturing activities needs to be made.

In a controlled economy, many of these factors are subject to Government decisions. Having a subjective, discretionary element creates some hazards in economic forecasting. On the other hand, once the decisions are known, there is reasonable certainty that they would be carried out. For example, the volume of production in many industries depends upon the availability of imports; the latter is an external governmental decision which cannot be anticipated; but, once given, it is possible to forecast with some exactitude the likely level of production in industry.

It is here that official lethargy in providing data becomes most noticeable. Although the Reserve Bank has been operating exchange control now for 30 years (a sufficiently long period to enable data collection to be systematised), in fact even today data on import licences — on licences issued and in the pipeline at various stages (not used, orders placed, on the seas, in warehouses) by value and by commodity, sources of payments for them and their relation to available foreign exchange resources — are not collected; at any rate they are not made available to the public. The poor management of our foreign exchange resources and the failure to measure the impact of foreign exchange availability on the economy should, therefore, cause no surprise.

Till almost the early sixties, with a sellers' market, demand factors tended to be neglected in the country; it was assumed, as in Say's law, that supply would create its own demand. The onset of the recession in the mid-sixties changed this situation. In the immediate context, perhaps government expenditure was a major factor in the recession, and this is likely to be so for some time to come. In the long run, however, with the green revolution increasing the marketable surplus more than proportionately (and given the low level of agricultural taxation and the price support programmes), income in the agricultural sector will become an important element in the demand for industrial goods and services. Here again, methodology in forecasting needs to be improved.

VI

Perhaps the greatest ignorance prevails regarding flows of income and timing of income generation. In industrial countries where the secondary and tertiary sectors provide a predominant part of national income, it is natural to assume that such flows are regular over

the income period (mainly, a year). This is not so in agricultural countries like India.

In such countries, output and, therefore, income generation, is seasonal. There are two major agricultural seasons in India, and agricultural output can be deemed to be produced in the harvest months. Thus, perhaps 60/65 per cent of agricultural output (about 27 per cent of national income) is produced in December/January, and 40/35 per cent (about 15 per cent of national income) in March/April. Regionwise also, this creates disparities in the timing of the generation of income.

Two aspects of this phenomenon deserve consideration. (a) The extent of saleable output in foodgrain production is small — about 40-50 per cent (Government distribution itself corresponds to about 8-10 per cent of total foodgrain production). This has two different implications: first, a large part of the agriculture-dependent population is outside the price and market mechanism and does not figure in the demand calculus of the other sectors; all agricultural labourers and foodgrain producers with one acre or less land can perhaps be included in this category. Secondly, as foodgrain output increases, the marginal marketable surplus becomes higher; a larger portion of it generates demand in the non-agricultural sectors; this would be so essentially in the case of foodgrain producers with one acre and more land.

TIME-PATTERN OF DEMAND

(b) The timing of the marketing of agricultural produce should have an important impact on the time-pattern of demand. After harvest, there is a major inventory movement from agriculture to agriculture-produce-user sections — the counterpart of the busy season in the banking sector. It is known that agriculturists do not necessarily liquidate all their stocks soon after harvest, so that income-encashment is more spread out than agricultural production. Secondly, a part of income-encashment leads to income transfers (to moneylenders and so on) and a part to consumption demand. Demand for textiles from retailers to wholesalers to manufacturers, emanating in December-January, is an index of this disjointed income-encashment.

Similarly, knowledge of regional flows of income and goods is limited. The troubled situation in the eastern region leads not only to a reduced flow of goods (particularly engineering goods) in the region but also perhaps to re-

duced demand and offtake (for example, of consumer goods like cotton textiles). If so, the recent rise in demand for consumer goods reflects a more than proportionate rise for them in other regions, neutralised only partially by the fall in demand from the eastern region. Such trends can be analysed by reference to origin/destination-wise transport loadings by roads and railways. Here again lack of data makes difficult a clear analysis of actual trends in the economy.

VII

Before income-forecasting can become more sophisticated, much research needs to be done on various subsectors of the economy and income-flows between them. This is a necessary precondition for efficient monetary and fiscal policy and for planning.

Notes

- 1 It has to be recognised that initially such lags only lead to an enlargement of the pipeline of investment; once the lags are stabilised (that is, unless the lags are increas-

ing), the assumed increase in output, consequent upon a given level of investment in a preceding period, should be reached regularly.

- 2 "The Indian Economy 1968-69" *Margin*, February 1969.
- 3 "India 1969: Economic Trends", V S Bhavé and N H Athreya.
- 4 "The Indian Economy, 1969-70", *Margin*, February 1970.
- 5 "Indian Economy in 1970-71; A Preview", Economic Research Unit, ISI.
- 6 "The Economic Outlook for 1970-71", R M Alt.
- 7 "India: 1970-71: An Economic Forecast", V S Bhavé.
- 8 *Ibid.*
- 9 "Discussion on Mid-term Review of the Indian Economy", November 1969.
- 10 "The Present Recession and the Future Indian Economic Growth", Freddie A Mehta in "Sixty Years in Retrospect 1907-1967", Indian Merchants Chamber.
- 11 "Raw Material for Business Economists" T P Subramonian, *Economic and Political Weekly*, February 14, 1970, p 320.
- 12 "Economic Forecasting", Alec Carincross, *The Economic Journal*, December 1969, p 798.
- 13 "Data Gaps Facing Business Economists", Samuel Paul, *Economic and Political Weekly* (Review of Management), February 28, 1970.

Nuclear Power for Thousands of Years

WHILE fossil fuels will be available for centuries, the energy obtainable from uranium and thorium, if used with utmost efficiency, could be enough for the world's power requirements for thousands of years. This was stated at the Symposium on Environmental Aspects of Nuclear Power Stations held at the United Nations headquarters in New York this month. The meeting, which attracted about 500 experts from 21 countries as well as a number of international organisations, was organised by the International Atomic Energy Agency (IAEA) in co-operation with the United States Atomic Energy Commission.

Forecasts for the near future were that, by 1980, about one-sixth of the world's electricity production would come from nuclear energy and that, by the year 2000, the proportion would be more than 60 per cent. In terms of installed nuclear capacity, the figure for 1980 would be about 350,000 megawatts and the figure for the year 2000 about 4,300,000 megawatts — compared to the total world electrical generating capacity in 1970 of about 1,100,000 megawatts.

Nuclear power is expected to dominate the market for new power plants

in advanced countries by 1980 and almost everywhere else by 1990. Expectations for fast breeder reactors, which would enable fullest use to be made of nuclear energy potential, were very high.

It was also stated at the symposium that 1.7 per cent of the world's total reserves of coal and lignite have so far been consumed. About 8.7 per cent of the crude oil reserves have been used. Only nuclear power is of a large enough magnitude to meet the world's power requirements for more than a few centuries and then only through the development of breeder reactors.

The problem of safe disposal of nuclear waste production was also examined. Very satisfactory progress has been made in the disposal of high-level wastes, while the handling of low-level and gaseous wastes is less satisfactory largely because of the desire to cut costs in achieving nuclear power production. Present technology is sound and viable, and can be utilised with confidence in the best interests of the public.

Further it was stated that the fusion process, if developed, offers the possibility of an almost infinite source of fuel from water.

A Cost-of-Capital Framework for Management Control

S K Bhattacharyya

The focus of most, if not all, management control systems in use is only on the performance of operating managers. The top managers are, by and large, left out of the control and evaluation processes.

We must, therefore, search for a system which is based on a more comprehensive view of control in the sense that it takes both the strategic and the implementation aspects into account and synthesises them together to optimise the performance of the corporation as a whole.

A MANAGEMENT control system essentially helps a corporation to do a significantly better job in planning, decision-making and evaluating the results of operations by relating performance to corporate objectives. Most management control systems in use tend to focus on evaluation of the operations of various sectors of a corporation's activity in relation to pre-determined goals. The methods employed in this context range from use of ROI, i.e. return on investment, as a basic control tool (a leading exponent being Dupont¹) to a multiple criteria evaluation system which takes into account a whole range of other indicators in addition to profit (the best illustration is perhaps General Electric²). In my opinion, the focus of most, if not all, management control systems in use is only on the performance of operating managers and that by and large the top managers are left out of the control and evaluation processes in setting up a management control system.

UNSATISFACTORY APPROACH

Anthony's definition³ notwithstanding, this approach to management control would appear to be both unsatisfactory and inadequate in the sense that the control process covers the operational aspects rather than the corporation as a whole. We must therefore search for a system which is based on a more comprehensive view of control in the sense that it takes into account both the strategic and the implementation aspects and synthesises them together to optimise the performance of the corporation as a whole.

Even if one assumed that the division managers achieved the required return on investment (or earned marginally higher profits), it will not necessarily follow that the corporation as a whole has earned the optimal return since there is no way of knowing

- (a) whether the top manager was able to plan effectively; and,
- (b) whether the planning process was implemented satisfactorily

by raising the required resources at the most economical costs.

To illustrate the situation, let us assume that after careful consideration of all the relevant factors Division A of a corporation was allotted a targeted return on investment of, say, 10 per cent after tax on the assumption that all resources required by Division A would be provided so long as the existing operations and new projects earn a return of 10 per cent after tax or over. Even if Division A was to fulfil its requirements, there is no certainty that the corporation would in fact earn the required rate of return if the top management was unable to raise the required resources at the most economical cost either due to wrong planning in terms of timing, resource requirements and mix or identification of sources for raising the resources required. This would result in a somewhat paradoxical situation whereby the income statement (or profit and loss account) relating to the operations would look good, but the overall results would be pulled down below the acceptable return benchmark due to the cost impact of Balance Sheet items controlled by the top management. Unfortunately, in multiple-product, diversified operations, the separation of cost, revenue and profit arising from operational and managerial decisions tend to get obscured when divisional results are aggregated in the form of the corporation's balance sheet and income statement.

TOP MANAGEMENT RESPONSIBILITIES

If we are to evolve a framework for a comprehensive management control mechanism which takes into account both top management and operational performance, we would first need to segregate the broad responsibilities of these two categories of management in control terms. In general terms, these top management responsibilities are:

- (a) To formulate strategies from different alternatives available to the corporation by quantifying

the possible results of operations under the available alternatives.

- (b) To set up profit, growth and other objectives in the light of strategy formulated.
- (c) Planning the acquisition of required resources for achieving the objectives set, and
- (d) Raising the resources at the most economical cost.

At present there is no method which can evaluate the performance of top management in relation to (a) above. In fact there are many thinkers in the control field who feel that any attempt at evaluation of performance in relation to the planning process — for example, whether top management was able to identify all the alternatives available or not, whether the criteria applied in determining the possible results were "correct" or not, etc — might have dysfunctional consequences in the sense that it might take away the vital element of innovation and imagination critical to the planning process. Fortunately items (b), (c) and (d) are more tractable in quantitative terms and it should be possible to develop some criteria for the performance of top management in relation to these factors.

Translated in broad terms, it would mean that top management objectives in relation to (b), (c) and (d) above would be:

- (i) to optimise the profits consistent with corporate norms of ethics by ensuring that all new projects which will earn the required rate of return are in fact approved;
- (ii) to ensure that existing projects continue to earn profits which are equivalent to or higher than the required rate of return; and,
- (iii) to determine the corporate rate of return consistent with the dividend and growth expectations of the owners of the corporation, i.e. shareholders, and to

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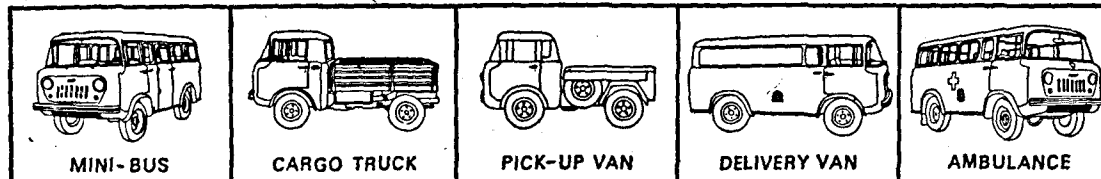
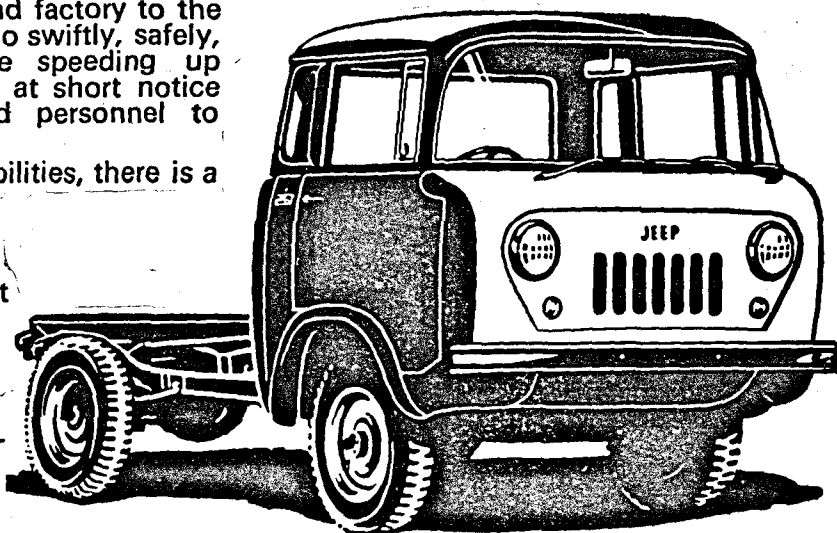
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make sure that these expectations are met by ensuring that the earnings per share (EPS) level achieved is consistent with the dividend and growth objective.

SOURCES OF FINANCE

It is too well known to need any elaboration that determination of the sources of finance (including equity capital from shareholders and the capital market) is one of the important tasks of top management. It would, therefore, be necessary to ensure that in pre-determining the cost of resources, the cost of servicing of all sources of capital (including equity capital) are properly accounted for. The three broad sources of such capital are:

- (i) share capital provided by owners;
- (ii) retained earnings (out of past profits); and,
- (iii) long- and short-term borrowings made by the corporation.

These sources, particularly share capital and borrowings, can be divided into several sub-categories, but for the purposes of this article, it would be adequate if we limited our discussions to the broad conceptual framework which could then easily be applied to the various components by developing separate data for each sub-set of the components.

In relation to the share capital, the major determinant would be the dividend expectation of the shareholders based on the historical dividend policy of the corporation and the existing capital market conditions. If projections are to be made on a historical base, it would be quite adequate to relate the dividend expectation to the existing paid-up capital level. However, if raising of equity during the plan period is a distinct possibility, it would be necessary to translate the yield rate to the market price as the assumption would be that the company would be able to raise equity at the premium presently prevalent in the market. To illustrate, if the paid up capital is presently Rs 100 and the expected dividend rate is 10 per cent and the pay-out policy is 50 per cent of profits earned, then clearly the corporation would require to earn Rs 20 after tax for each Rs 100 on share capital. In other words, the after-tax cost of equity consistent with the dividend policy and the growth objective of the corporation will be 20 per cent after-tax on a par value basis.

However, if the Rs 100 share of the corporation is quoted at, say, Rs 300, given the same dividend and pay-out policy, the cost of equity capital would be 6-2/3 per cent as the earnings requirement would be related to the market value of the shares. A real problem that arises in this context is that it is not always possible to determine well in advance whether raising of equity would be a feasible economic proposition and, furthermore, it is difficult to project future yield rates.

In regard to retained earnings it was not unusual in earlier days to reckon that it had no cost since neither dividend nor interest was payable on retained earnings. However, now there is unanimity among thinkers in this field that retained earnings has a definite opportunity cost in the sense that if it does not earn a minimal expected rate of return, it would be difficult to justify the retention of profits which legally belongs to shareholders. If the cost of equity capital is related to market price, it would be reasonable to assume that the market price reflects some weight for retained earnings.

However, if there is evidence that the market price is based on other considerations (future growth based on R and D, management image, etc), the opportunity cost for retained earnings would require to be separately calculated. If the cost of equity capital is based solely on par value, the cost of retained earnings would similarly require to be separately computed.

The assumption would be that if the shareholders agreed to the retention of part of the profits earned during the year, they implicitly accepted the internal rate of return or ROI of the corporation as satisfactory. Extending this concept, it is possible to apply an opportunity cost rate to retained earnings equal to the historical ROI on the assumption that if the future return was projected to be less, the corporation should properly return the retained earnings to the shareholders as dividend. If market price does not reflect the retained earnings or if the par value basis of cost of equity capital is used, the cost of retained earnings should be taken in as the projected after-tax ROI of the corporation.

The situation in relation to the cost of borrowings is, however, much clearer in the sense that the market mechanism determines the interest rate and once the borrowings are made, the loan agreement stipulates the cost of this component of capital, i.e., both

short- and long-term borrowings. It is, however, relevant to mention that interest, as distinct from dividend, qualifies as a deductible expense for tax purposes and, accordingly, the interest rate applicable has to be discounted by the effective tax rate to determine the after-tax cost of the borrowings. Here again, the estimation of the future interest rate spectrum is a difficult task that the top management must undertake. The fact that a whole host of uncontrollable economic, political and administrative factors influence this rate structure does not diminish the criticality of this top management task.

WEIGHTED COST OF CAPITAL

If the costs of the three components of capital are statistically weighted, it is possible to develop an average weighted cost of capital. An important thing to remember in this context is that all components have to be translated either on an after-tax or before-tax basis for purposes of weighting. If the corporation earns a return equal to the average weighted cost of the capital, it can be assumed that the earnings would be adequate to enable the company to:

- (i) pay the expected rate of dividend to shareholders;
- (ii) retain a pre-determined amount of profits for purposes of growth and other financial needs, primarily working capital, and earn thereon an adequate rate of return; and,
- (iii) service the borrowings by way of interest payments.

The aforementioned cost-of-capital would be adequate only if it is assumed that:

- (a) the shareholders would continue to be satisfied with the existing or projected dividend rate so long as significant changes in market price of share does not take place;
- (b) the growth objectives of the company would be met by the present retention policy; and,
- (c) the corporation would be able to borrow at the existing or projected rates of interest.

However, it is a fact of financial life that none of these assumptions are fully valid over any length of time. The situation is further complicated by the fact that the corporation cannot continue to exist indefinitely as a viable economic entity without making new

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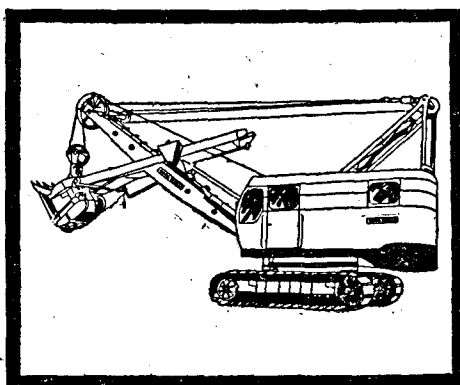
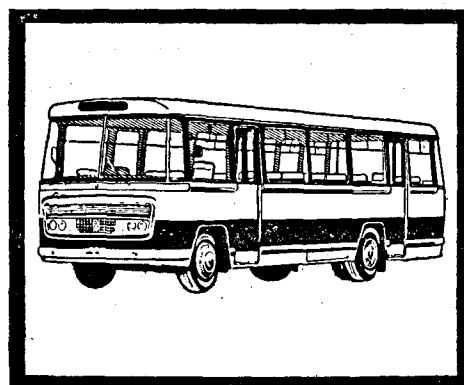
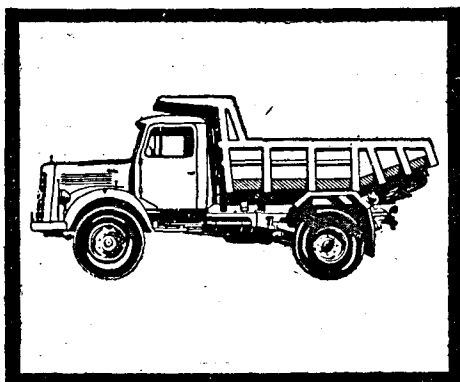
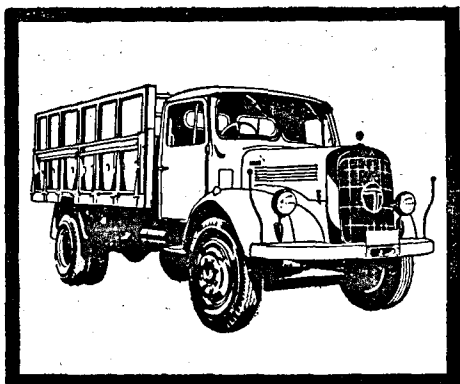
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investments for maintaining its growth and profitability.

It is for these reasons that many thinkers advocate that the appropriate figure of cost-of-capital to be used in determining the rate of return should reflect the following:

- projected dividend expectation rate during the plan period;
- a "hurdle" rate of return set up consistent with corporate objectives in regard to growth and profitability; and,
- the expected interest rates which are likely to prevail during the plan period.

The essential distinction of this framework from the previous one lies in the incremental approach as compared to the historical cost approach. Critics of the incremental cost method tend to emphasise that in addition to planning its resources for new investments, every corporation needs to service the present investments by way of dividend and interest. The answer then clearly lies in formulating a cost-of-capital rate which takes into account the present cost-of-capital in relation to existing investments and the incremental cost in relation to new projects and weigh these components in the light of the projected mix of existing as well as new projects during the plan period in relation to the planned resource-mix.

It should not be too difficult to evolve a weighted cost-of-capital which balances the requirements of existing and new products in the light of the broad framework spelt out above. It is true that most sophisticated theories which are presently known, are more sensitive to the growth and planning aspects, but it has been observed that given the uncertainties of the financial marketplace and the nature of business risks, very little extra precision is to be achieved by introducing a high degree of sophistication based either on excessively fine-tuned financial considerations. The experience of most practitioners in the management control field has been that working managers have in the past tended to shy away from the application of cost-of-capital as a business tool primarily because of their uneasiness arising out of lack of comprehension of what cost-of-capital stands for and how it is computed. While the models of Modigliani, Miller and other thinkers are important theoretical contributions in this field, in terms of application it is necessary to constantly

emphasise what is presently feasible without getting into esoteric financial or quantitative models.

GENERAL ELECTRIC EXPERIMENT

The General Electric Company was the first to recognise the importance of developing an appropriate rate of return for control purposes. It adopted a method of performance appraisal which optimised the residual monetary profits after deduction of a notional capital charge. It was not explicitly stated that the rate for capital charge was in fact the cost-of-capital. Some doubts exist whether the G E method was based on considerations relating to servicing different components of capital. The published text⁴ emphasises the optimisation of dollar income for purposes of managerial control as contrasted to the rate of return on investment.

However, the cost-of-capital method is clearly superior to the straight forward ROI, return on investment, concept for managerial control purposes, for the simple reason that it gives the signal to the operating managers that

- any project which did not earn an amount equal to the corporate cost-of-capital would pull down the divisional as well as the corporate performance and, accordingly, such projects are to be discouraged; and,
- any existing or new project which could earn more than the corporate cost-of-capital (however marginal the residual profit after charging the capital cost) was welcome because it contributed to the additional pool of profits which was available for servicing of the growth requirement of the corporation.

There is enough evidence today that the General Electric experiment failed primarily because of two reasons:

- the capital charge was based on historical balance sheet figures rather than on the mix of historical as well as of projected resources as outlined in the earlier part of this article; and,
- the capital charge concept was used primarily to control the results of performance of divisional managers rather than corporation as a whole.

This lacunae arose as the concept was not extended to include evaluation of top management based on the ability

to raise the required resources at the projected cost-of-capital which should be charged as a notional cost in determining residual profits.

OPTIMISATION OF RESIDUAL PROFITS

I contend that in order to effectively use the cost-of-capital concept as a managerial control tool, it is necessary to delineate not only the responsibility of operational and divisional managers in terms of requirements of earning a rate of return not less than the cost-of-capital but also optimising the residual profits of the corporation as a whole after such a charge. The capital charge concept, if it is to be effective as a comprehensive control tool, must be extended to provide that:

- the top management should be able to identify historical and incremental costs of the various components of capital in terms of the corporate strategy and growth objectives during the plan period; and,
- the top management would be willing to commit themselves to the position that any divisional manager who identifies new projects which are likely to earn a rate of return not less than the budgeted cost-of-capital would have money available for financing his projects.

The performance of the top management in relation to these corporate responsibilities can easily be measured by comparing the actual cost-of-capital with the projected cost-of-capital (or a narrow range bordering the computed cost of capital to reflect the uncertainties inherent in projections relating to future periods). An additional input for purposes of top management performance evaluation could be the data relating to the projects which had to be dropped or rejected because of lack of availability of resources, even though the managers concerned were willing to accept the responsibility of earning the budgeted cost-of-capital. Of course, the complementary planning and control requirement would be to ensure that performance appraisal of operating or divisional managers is based on their ability to generate a positive residual income after a notional charge based on the budgeted cost-of-capital and that the managerial reward and punishment process is related to this evaluation.

The proposed method of performance evaluation has several merits as a control mechanism in the sense that:

(a) It achieves congruence between corporate objectives in a much broader perspective in that both the objectives of the top and the divisional managers are made congruent with the corporate objectives by raising resources within a pre-determined narrow range of cost-of-capital and earning operating profits which are equal to or greater than such a range of cost-of-capital.

It is more comprehensive than the historical cost-of-capital to the extent that it takes into account not only the operations relating to existing projects but also the projects proposed to be taken up during the plan period, thereby ensuring that the planning framework is integrated with the management control system. To elaborate this point, top management will be able to achieve their responsibilities for raising

the resources at the required cost only if they are able to do a good job in estimating the amount required for financing the existing as well as the new projects, and the cost-of-capital which will adequately serve the expectation and needs of the shareholders and the lenders. In terms of the operational requirements, such a concept will ensure that divisional or operating managers not only plan their ongoing operations to ensure that the profits earned are at least equivalent to the required rate of return, but also plan forward and generate new project proposals which would ensure that the required rate of return is at least maintained and if possible increased, to achieve managerial recognition.

(c) It would tend to integrate the income statement items (which

are properly the responsibility of the operating managers) with the balance sheet items (for which the top managers are accountable), and

(d) It would also integrate the planning, financing and operating philosophy into a broad conceptual framework.

Notes

- 1 Executive Committee Control Chart — E I Du Pont de Nemours, Wilmington, Delaware.
- 2 "Executive Control — the Catalyst" by William T Jerome III (John Wiley and Sons), pp 217-237.
- 3 "Planning and Control Systems: A Framework for Analysis", Robert N Anthony (Harvard Business School, Division of Research, 1964), pp 16-17.
- 4 "Planning, Managing and Measuring the Business — A Case Study of Management Planning and Control at General Electric Company" (Controllers Institute Research Foundation, 1961 printing) p 32. Also see, William T Jerome, *op cit*.

Cash Management in a Developed Economy

Surendra S Singhvi

John A Kaupisch

The purpose of this paper is to establish the relationship between the thoughts of the academic world and the practical management of cash by corporations. The problem, as considered by both views, is: "How do corporations manage their cash and why?"

The paper is divided into three parts: the first part of the paper deals with the academic view of cash management; the second part presents cash management policies and practices of three large United States corporations; and the last part compares the academic with the practical approach.

"FOR the purpose of the present text, we shall broaden the concept somewhat by defining finance as that administrative area or set of administrative functions in an organisation which have to do with the management of the flow of cash so that the organisation will have the means to carry out its objective as satisfactorily as possible, and at the same time meet its obligations as they become due."¹

This quote shows the importance of cash management and, to an extent, the reason why this topic has been chosen as one worthy of expanded thought. First, it is believed that the term "cash management" must be expanded to "cash items management" because, in recent years, short-term liquid paper as well as actual money have both been called cash. Therefore, cash has two forms — bank balances and marketable securities. The old term cash meant money sitting in a bank, petty box, or in the top drawer at the order counter. Today, the new term cash encompasses both the money in these various places and the money that has been invested in short-term liquid paper.

A PLANNED PROCESS

Next, after changing the term from cash management to cash items management, a look at just what cash items management is. One expert puts it quite simply, "Today, when cash, like any other asset of the company, is a tool for profits, the emphasis is on the right amount of cash at the right time, at the right place, and at the right cost."² Thus, cash is comparable to any other asset and, just like a piece of cloth or a bolt, you must have it when you need it. If you do not have cash, you must go out and borrow cash at the market price.

Therefore, cash items management is a planned and not a spontaneous process. One plans what the needs are and how these needs are to be met. Before we go further, the question might be asked, who is the cash manager? According to two business educators, the cash manager is the treasurer.³ The

classic definition of the cash manager is provided by John Sagan,

The money manager should be a combination of a credit analyst, a commodity specialist, a money market expert, a bit of a horse trader (a trait useful for dealing with security dealers), and a banker. As such, he requires a proper balance of art, science, and diplomacy. If he possesses these, together with an ability to read the future, his will be a successful career.⁴

As can be seen from these definitions, the cash manager is likely to fall in the treasurer's position; but, he must be a very apt person in more ways than in just the knowledge of cash. Also, the treasurer must have a group of individuals below him who understands the complexity of the problem and each, in a special facet, aids the treasurer with his duties.

Returning to the techniques of cash items management, the planning is accomplished in two phases: first, cash planning which is the long range budget and *pro forma* statements, and second, cash forecasting, which is for a period of less than a year. It is important that these budgets show movement from day to day so that excesses and deficiencies can be planned for in advance. Therefore, one can plan what must be done with a surplus or with a shortage of cash. Should the company invest in short-term securities or even purchase its own shares on the market is a problem that faces a cash manager in a time of surplus cash and how to borrow is a problem when deficient.

In recent years, due to the improvements of cash management, companies have been able to build up substantial amounts of spare cash. One method of improving cash management has been the innovation of the lock-box. This is a method for speeding the flow of cash from customer to seller. The mechanics of this method are as follows: (1) the customer sends his payment directly to a post office box which is rented by a bank, (2) the bank empties this box daily or several times a day and, (3) the bank notifies the seller that payments in

the amount of \$X have been made. This method greatly facilitates the movement of cash from customer to seller and it is one of the ways to accumulate substantial amounts of spare cash.

GUIDELINES TO INVEST IDLE FUNDS

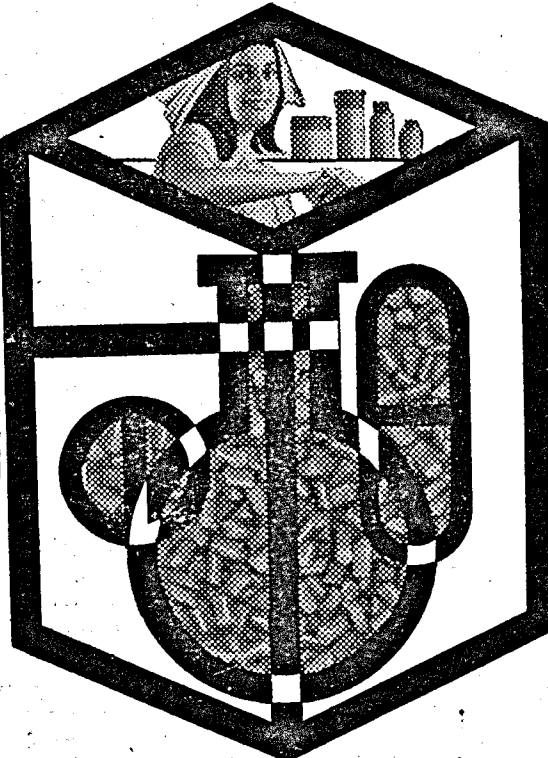
In past years, it was general practice to let any excess funds sit idle in a bank deposit; however, it is now the feeling that a non-financial corporation should invest its surplus funds, because excess capital is costly and yields no income to the company.⁵ Therefore, the cash manager has been putting forth great effort to invest these idle funds. Before he can do this effectively, he must study and establish guidelines for these investments. Should these be long or short term investments? Should the emphasis be placed on risk or yield?

First, in establishing these guidelines, the cash manager must realise that a certain amount of these idle funds must remain idle in order to meet contingencies and everyday expenses. Second, is the question of liquidity — when the funds are needed at various times to pay taxes, dividends, and operating expenses, the cash manager should invest in the most liquid investments that meet his other criteria for short-term investments. Third, what risk should one take with idle funds? This guideline will also determine the yield that one derives from an investment because yield is directly related to risk.

In determining the first of these guidelines, how much idle cash should remain idle, the most common method is "a multiple of average daily cash sales". This is because the larger the sales, the larger the amount of cash needed for daily operating expenses.

The other guidelines of liquidity, risk, and yield can probably best be illustrated by showing what the academic world has to say about the investment of idle funds. At the top of most lists of securities for short-term investments are the Government securities (i.e., US Treasury Bills) because of

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their high degree of liquidity and their low degree of risk.⁶ Next on the list are tax anticipation notes, and, equally, certificates of deposit because of their low degree of risk but somewhat better yield. These investments are followed by tax-exempt securities, bank deposits, commercial papers, and foreign securities.

The literature on the subject shows that cash management has moved to a new stage, a stage which encompasses the total use of money and improved standards in using this money. However, it still shows signs of conservatism and places safety before profit optimisation as illustrated by their list of preferred short-term investments. In other words, the academic writers have placed risk as the prime determinant of a firm's short-term investments.

II

This section illustrates, by considering three large US corporations each representing a different industry, how businesses actually plan for and use their cash funds. The companies considered for this project are Alpha, Inc, with 1968 sales of approximately one billion dollars and with cash and marketable securities as of December 31, 1968, of \$12 million; Beta, Inc, with 1968 sales of over one billion dollars and with cash and marketable securities of \$30 million as of December 31, 1968; and Gamma, Inc, with 1968 sales of over \$1 billion and with cash and marketable securities of \$90 million as of December 31, 1968. The method used for studying these corporations was to interview an experienced financial executive considered by the corporation as knowledgeable in cash management.⁷ Also, a study of the latest annual report of the corporation was made to substantiate the findings of the interview.

ALPHA

The top person at Alpha, with regard to cash management, is the Assistant Treasurer. Cash is defined at Alpha as being cash on hand (balances in bank deposits; some 200 deposits existed) and the most liquid securities that the company held. The reason for having so many banks instead of centralised control (which Alpha had to an extent) is that the local bank relationship is of great importance to the company's marketing department. Alpha sells office equipment and it sees these 200 banks as 200 potential customers of its equipments. Therefore, Alpha sacrifices the faster turnover of cash for

expected future benefits from each of these banks. However, the assistant treasurer showed a great desire to establish what is called data transmission, which is a tape transfer unit that would transfer information about collections directly to the home office computer. Hope for this type of project was dim as this system has not been perfected and may not be for a number of years.

The next phase of cash management at Alpha is the planning and budgeting. The Financial Planning Group uses a Cash Forecast Profit Plan, cash flow, and *pro forma* balance-sheet on an annual basis. These plans are updated by the month and then by the day. It has an updated daily plan for three months at all times. The assistant treasurer stated that the cash forecast has not varied more than five per cent from actual over the last few years and felt very confident about the company's planning process.

The cash forecast, as is its main purpose, would give the amount of cash in excess or needed on any given day. From this, the maximum or minimum level of cash desired to meet daily expenses was subtracted and the level of buying or selling of investments was determined. For Alpha, the maximum level of idle cash is \$10,000,000 and the minimum level is \$4,500,000. This amount varies with the level of expected sales, however.

The assistant treasurer stated that the primary purpose of investing short-term money was to only recover the cost of the money. However, a profit was desired and the treasurer wanted to have the money in a liquid form when needed. Generally, the company made a small percentage on excess short-term money. Because of its primary purpose, certain limits are placed on investing short-term money and these are (1) high liquidity and (2) low risk. Therefore, its investments are held mostly in short-term government securities, certificates of deposit, and commercial paper of prime quality. The assistant treasurer prefers the secondary market because rates are better and he does not like individual banks knowing what types of paper the company is holding.

One can observe that Alpha is not utilising its cash items to the fullest extent possible. The finance group is more on the conservative side and does things the way they had been done in the past. Because the finance group is very efficient in planning, it should have

entered upon optimising the return on idle cash with a great deal more vigour than it does at the present. It must objectively evaluate the future possibilities of its banks, actually purchasing Alpha's equipments as compared to what could be gained for more effective cash management and faster turnover of cash. The finance function at Alpha, in this case, is taking a back seat to marketing and only an objective study can determine which function should prevail. Possibly, with a more progressive financial manager, Alpha could break from its tradition and make its money work more effectively for the benefit of Alpha's stockholders.

BETA

At Beta, an official of the treasurer's office was interviewed. He stated that the Vice-President of Finance is the top person at Beta as far as cash management is concerned. Beta defined cash as money in the bank as well as marketable securities. Beta had accounts at 137 banks spread out across the country. The use of the lockbox was regarded with growing potential as the number of large customers has grown in recent years; however, this method of speeding cash flow was not in extensive use because (1) of the great number of small customers, (2) the expense of a lockbox (averaging 12c per photostat copy of each check), and (3) the lag time of receiving the notice of cash receipts and verification as to whose account was to be credited (the time being four to seven days from New York City). The official, also, looked forward to the data transmission system but stated that it could be as far as ten years in the future before it could be used satisfactorily. There was also some concern about how fast checks could be cancelled as the official stated that Beta relies on float as do many other companies. When data transmission is introduced, a great deal of planning and change will occur in cash management practices.

The planning phase of cash at Beta is done in a continuous eight-week period. At all times, they have at least eight weekly budgets and these are refined to a daily basis. This budget is based on a four-year historical collection record, which is based on what will be collected as a percentage of sales each month and a percentage of what will be collected from previous months' sales. What will be spent at each capacity is then subtracted. Along with this, the minimum bank balance is subtracted — the balance being figured by

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1968 figures (Rupees in crores)	
Capital and Reserves	1.30
Departmental Reserves	1.36
Total Assets	4.62
Net Premium	2.59

taking immediate needs plus an amount for payment of services plus a compensating balance for the bank. The average book balance is between \$5,000,000 and \$7,000,000. The amount left is the amount of cash excess or cash deficiency on any given day. According to the official, the cash forecasting has been quite accurate and helps in planning for investment of excess funds and liquidation of securities to meet for a deficiency.

What did Beta invest in and why? It never invested in any securities for less than three days because it failed to see a great deal of benefit, and its maximum was usually a ninety-day paper. Commercial paper led the list as 99 per cent of all short-term investments were in this type of paper. Investing in such paper as of Ford Motor Company, General Motors Acceptance Corporation, and General Electric Acceptance Corporation, it felt that this paper was of good quality, yielded a greater return than the US treasury securities, and there was a substantial market in these securities to enhance liquidity. The other one per cent was invested in treasury bills, possibly for the lack of better investments.

The official was quick to acknowledge that Beta's use of idle funds was quite successful. The company first started putting idle funds to work in 1963 and it netted \$61,000 in that year with interest rates being only 2½ per cent to 3½ per cent for under thirty days money. With high interest rates today, one cannot help but see the great utilisation of funds being made by the company. The official further stated that Beta made enough from investing idle funds in 1965 to pay for the expenses of the treasurer's department.

One observes that Beta practices a very progressive and realistic programme for investing idle funds and returning all that is possible to the stockholders. However, the cash managers are not reckless in getting this added return in that they consider risk and liquidity with the utmost regard. The only suggestion that could be made for Beta is that it should consider investing funds for less than three days. The company could be missing a return on idle funds that might be larger than it thinks.

GAMMA

The assistant treasurer of Gamma was interviewed. Cash, as defined by Gamma, includes cash and short-term marketable securities. In 1966, Gamma held a sizeable portfolio of securities. Since that time, because of a major capital

improvement project, the company has changed its position from a lender to a borrower. In this position, one of the problems faced is that of speeding up the flow of funds. Gamma does this by bank wire and lockbox. Funds are transferred to its subsidiaries via the bank wire, thus improving flow. Working funds are replenished by operating units by drawing drafts on the treasurer.

The lockbox is a means of speeding cash flow, which Gamma is using extensively. It now has twenty lockboxes and anticipates more as its market expands. This method increases flow and reduces borrowing. According to the assistant treasurer, the cash flow was cut by at least one day in all cases by using lockboxes and this flow could be predicted with 85 per cent accuracy, thus knowing within a given range how much might have to be borrowed. This is even more important when in a borrowing position because the effects of the cost of borrowing are far greater than the effects of investing idle cash. The thought of increasing cash flow even more with the use of data transmission would be welcomed by the assistant treasurer; however, the problem of perfecting a turn-around document is still the limitation on this device.

Gamma, being in a borrower's market, has added pressure on preparing a cash forecast in that it must know when and how much to borrow; this is a somewhat less flexible position than a company experiencing excess funds. With this in mind, the cash budget is planned with the peaks of the month (collection and payment dates) being emphasised so that borrowing may be minimised. However, there are times when Gamma has excess funds and does invest them.

Therefore, in what does Gamma invest and from where does it borrow? Gamma, prior to 1966, invested in US treasury securities, certificates of deposit, commercial papers, and tax-exempt securities. Now, with the vast capital improvement programme, Gamma is limited to excess money for very short periods of time and it primarily invests in overnight paper, which is a commercial paper of prime companies. The emphasis is on risk and liquidity because when funds are needed they would much rather use this excess money than borrow. They also use any excess cash to repurchase their own sinking fund debentures because the yield on repurchasing them is greater than investing in other types of securities, and actually, it would be worth borrowing to repurchase these

debentures.

When Gamma borrows in the short run, it tries to do it in one of two ways, either issuing commercial papers or use of an established revolving credit agreement. Gamma likes to sell commercial paper because of its flexibility. The company has an arrangement with an investment banking firm to sell such paper. The other method of borrowing is an established revolving credit agreement with a number of banks. This method of borrowing is preferred because interest rates are pre-established and banks are formally committed for the duration of the agreement.

Gamma has proven successful in managing its cash under the circumstances confronting it. It is necessary to plan for borrowing rather than investing excess funds and the company has accomplished this feat with considerable efficiency. This may be evidenced in the acceptability of Gamma's commercial paper when it is issued. Only prime commercial companies are successful in issuing commercial papers. Also, it is shown in the most favourable terms of the revolving credit agreement and the prestige of the banks making up the group. Because of successful cash management, Gamma has efficiently reduced its borrowings to a minimum and even, at times, had spare funds to invest. Gamma shows sound financial management because it realises its problem as a borrower and has sufficiently planned for this.

III

This paper shows the relationship between the thoughts of the academic world and of the practical world on corporate management of cash. First, both viewpoints are similar on the definition of cash — it being cash on hand and short-term marketable securities. Second, they both agree that the treasurer manages the cash. Third, they both realise the necessity to regulate and plan for cash movement. Fourth, both views find it necessary to invest excess funds and try to borrow as cheaply as possible for cash deficiencies. The only place of major difference of opinion could be found in what to invest excess funds.

The optimum use of cash resources leads to the optimum use of total assets. This fact is realised today where ten years ago cash would lay idle and unproductive. This fact was first realised by the academic group and has caught on to an extent in the three companies studied for this paper. In addition, more firms today are concerned about

the optimum use of their liquid resources than ever before. The academic and the practical worlds combine for progress, and out of this combination has come a greater regard for optimum utilisation of cash as an active asset and not to remain idle.

If the corporate cash managers in developed countries are concerned with the optimum use of cash resources, it is absolutely necessary for their counterparts in developing and underdeveloped countries to be more concerned with the optimum use of cash resources. Minimising idle cash funds can do as much for the owners of a business firm as maximising return on new investment projects. To this end, the cash manager can use several techniques including cash budget, computer simulation,⁸ and mathematical models.⁹ Business educators in developing countries should undertake research to help the business community in optimising the use of available resources. It is hoped that the case studies related to three corporations of a developed country will provide some insight into cash management practices and policies to their counterparts in developing countries.

Notes

- 1 Carl A Dauten, "The Necessary Ingredients of a Theory of Business Finance", *Journal of Finance* (May 1955), p 109.
- 2 A. E Reed, "Corporate Cash Management", *Financial Executive* (October 1963), p 13.
- 3 Sidney M Robbins and Edward Foster, "Profit Planning and the Finance Function", *Journal of Finance* (December 1957), p 452.
- 4 John Sagan, "Toward a Theory of Working Capital Management", *Journal of Finance* (May 1955), p 129.
- 5 Fred Moyer, "Investment Policy and Management", *Financial Executive* (January 1964), p 34.
- 6 See, for example, Charles J Miller, "New Short-Term Investment Patterns for Corporation Consideration", *Financial Executive* (January 1964), p 44. Also see, Sagan *op cit* p 125; and Moyer, *op cit* p 34.
- 7 Interviews were conducted in November 1969, and the names of the companies involved have been disguised as per the request of the interviewees.
- 8 Merton H Miller and Daniel Orr, "An Application of Control-Limit Models to the Management of Corporate Cash Balances", in Alexander A Robichek (ed), "Financial Research and Management Decisions", (New York: John Wiley and Sons, Inc, 1967), pp 133-151.
- 9 Harold Bierman, Jr and Alan K McAdams, "Financial Decisions and New Decision Tools", *Financial Executive* (May 1964).

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Some Aspects of Term Finance for Industry

V V Bhatt

So far financial institutions have confined themselves to providing financial assistance. The European experience shows that this is not enough in a backward country; and this is certainly not enough in a country with a planned process of development.

In the context of the requirements of an economy like India's, the financial institutions have to play a much more positive role with regard to (a) identification of new projects, (b) their selection in the light of the Plan, and (c) efficient management of industrial enterprises.

In short, financial institutions have to provide entrepreneurial and managerial guidance for accelerating the growth rate of industrial investment and output.

THE need for term finance arises primarily because of the durability of capital equipment. If capital equipment were not durable, all financial requirements for production would be only for working capital purposes. This was true, say, in the UK before 1815 and that is why the classical economists discussed only the question of advances to industry for the purpose of financing raw materials purchase and the wage bill. With durable machinery becoming important in the UK, the requirements of term finance were largely met by individuals by way of subscription to the shares and securities of various enterprises. Industrialisation in the UK had proceeded without any substantial utilisation of banking for long-term investment purposes.

As Gerschenkron puts it,¹ "The more gradual character of the industrialisation process and the more considerable accumulation of capital, first from earnings in trade and modernised agriculture and later from industry itself, obviated the pressure for developing any special institutional devices for provision of long-term capital to industry".

In the relatively backward countries of Europe like France and Germany during the nineteenth century, both entrepreneurial talent and capital were scarce, while the capital requirements for an accelerated industrialisation process were quite large in relation to the resources available. In these circumstances, a new type of banking evolved in the European countries. "The continental practices in the field of industrial investment banking must be conceived as specific instruments of industrialisation in a backward country",² as Gerschenkron's researches have shown. These new type of banks were designed "to build thousands of miles of railroads, drill mines, erect factories, pierce canals, construct ports and modernise cities. The ventures of the Pereires and of a few others did all that in France and beyond the boundaries of France over vast areas stretching from Spain to Russia".³

This new type of banks did not merely provide finance to various enterprises. "...the German banks and with them the Austrian and Italian banks, established the closest possible relations with industrial enterprises. A German bank, as the saying went, accompanied an industrial enterprise from the cradle to the grave, from establishment to liquidation throughout all the vicissitudes of its existence. Through the device of formally short-term but in reality long-term current account credits and through development of the institution of the supervisory boards to the position of most powerful organs within corporate organisations, the banks acquired a formidable degree of ascendancy over industrial enterprises, which extended far beyond the sphere of financial control into that of entrepreneurial and managerial decisions" (italics mine).⁴

II

This Continental experience has great relevance for India. The Indian banking system developed more or less on the British pattern and concentrated till independence on financing the working capital requirements of trade and industry. The source of long-term finance was, as in the UK, the profits from trade and industry only. After the initiation of the process of planned development, the rate of growth of industrial output was more than double the pre-Second World War (1918 to 1939) rate and the rate of growth of industrial investment rose sharply. As in the Continental countries during the nineteenth century, the financial requirements of long-term finance could not be met from the normal sources and new term-lending institutions like the Industrial Finance Corporation of India, the State Financial Corporations, the Industrial Credit and Investment Corporation of India and later on the Industrial Development Bank of India had to be started to provide the term finance requirements of industries; even the banks were induced to provide such finance to a limited extent. At present, these

institutions provide about 25-30 per cent of the fixed capital requirements of new medium and large-scale industrial projects.

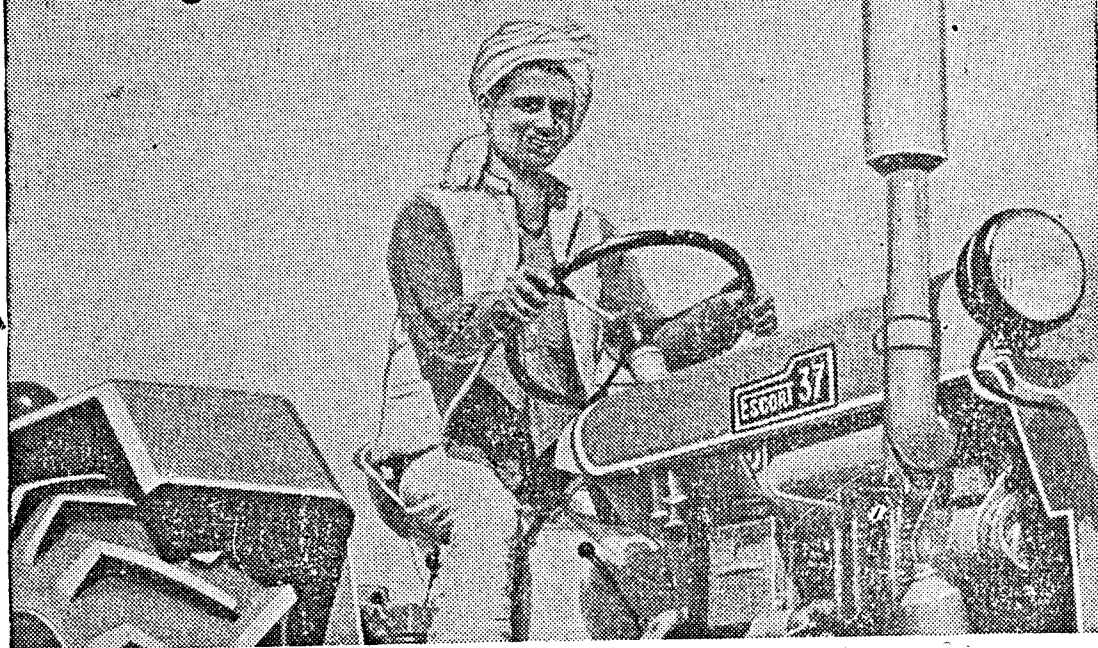
But so far the financial institutions are providing only financial assistance. The European experience shows that this is not enough in a backward country; and this is certainly not enough in a country with a planned process of development. The financial institutions, in such a context, have to play a much more positive role with regard to (a) identification of new projects, (b) their selection in the light of the Plan, and (c) the efficient management of industrial enterprises. In short, they will have to provide entrepreneurial and managerial guidance for accelerating the growth rate of industrial investment and output.

III

The Industrial Development Bank of India, in principle, is expected to perform some of these functions. Its inability to do so far has been largely due to the fact that it has not been equipped to perform this function. The financial institutions need to have assistance for the purpose of (a) a Centre which can design and engineer projects, (b) a Centre which can suggest appropriate technological modifications and (c) a Centre which can effectively appraise the soundness of projects. All these Centres need to be staffed by competent personnel and provided the necessary equipment. We should have not one but several Centres in each of these fields, each one specialising in a specific industry. Even such Centres cannot have command over the expertise required for all projects. It would therefore, be necessary to promote private consultancy service organisations in India; the names of some selected consultancy organisations in India and abroad should be prepared and their advice could be sought in cases in which these Centres have no expertise.

The services of these Centres and o

Makhan Singh of Paprawat calls his ESCORT 37 the Lakshmi of his life. For a good reason too.



Makhan Singh is a tough 36.

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last year when everything was freezing, I had no trouble running my tractor! There was no water to freeze. ESCORT 37 is air-cooled!" (which also means there's no radiator, no hose pipe, no water pump. A lot fewer parts to look after!)

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the consultancy organisations would also be useful in fixing norms of efficient performance for each industrial enterprise. And the financial institutions should have adequate supervisory powers to goad the enterprises to realise and even overreach these norms. The Bureau of Cost And Prices set up in Ministry of Industrial Development could provide useful information with regard to the efficiency of Indian enterprises as compared to the corresponding enterprises in some of the developed countries. If industrial output has to grow at more than 10 per cent per annum as indicated in the perspective plan, the internal rate of return of an industrial project should exceed 20 per cent per annum. This norm should be adhered to in the selection of projects as well as in appraising the current performance of already established enterprises.

Now that the major fourteen banks have been nationalised and the major term lending institutions are already in the public sector, the proposed Centres for medium and large industries could be promoted and supported by all of them taken together. The Centres for small industries can be promoted and supported by the IFC, the SFCs and the banks. Each financial institution then would be in a position to obtain expert advice with regard to identification, selection and management of industrial projects.

IV

The next question is: how much term finance should be provided by the financial institutions? So far there has been some norm with regard to the debt-equity ratio. But this norm has been fixed in the light of the current trend with regard to inter-corporate investment. Quite a large part of the paid-up capital of the present companies is provided through this source. Historically, this is how industrial development has taken place in this country; it is, thus, that the established industrial houses provided both entrepreneurial and financial guidance to the new enterprises.

Though the historical creative entrepreneurial role of the established business houses has to be recognised, this feature of Indian development has given rise to certain situations which may not be consistent with a planned process of development. Firstly, since only these business houses can raise enough capital, the selection of projects may not be completely in accord with Plan priorities. Secondly, new entrepreneurs with even sounder projects or project ideas are not in a position to implement them if they are unable to

attract capital from the big business houses. Thirdly, under the present banking system and procedures, the big business houses are in a position to finance a larger part of their working capital requirements through resort to bank finance, though they may have enough funds of their own (which are invested in fixed capital of other enterprise) to finance them. Finally, it has led to what is known as concentration of economic power.

If inter-corporate investment is discouraged, the established concerns would be able to finance their own working capital requirements with their own funds. In that case, bank resources will be released for other uses. These released resources can be used for term financing either directly or via the term-lending institutions. This would be a desirable development only if the financial institutions played an active role in providing term finance; if they insist on the present debt-equity ratio norm, they will not be in a position to support new enterprises. This really implies that the financial institutions should provide required term finance to new ventures without strictly adhering to any debt-equity ratio norm and entirely on the basis of the soundness and viability of the projects. This they cannot do unless they have enough expertise to judge and appraise sound projects.

If they acquire this expertise as suggested earlier and if they do provide term finance liberally, they would help the development process in a variety of ways. The selection of projects would be done much more rationally than at present. They could goad, as only a banker can do, the enterprises to progressively improve their efficiency. The concentration of economic power could be reduced much more directly and efficiently than through any other device. New enterprises with sound ideas and projects can be promoted and there would thus be wider diffusion of entrepreneurial talent in the country.

V

Thus a more rational allocation of resources in the light of Plan priorities can be brought about. However, the problem of increasing the resources of financial institutions would remain. For this purpose, appropriate financial instruments would have to be devised so as to induce people to put a greater part of their saving in the form of financial assets. These new instruments should bear a reasonable rate of return, should be in accord with the preferences-pattern of savers and be such as would inspire public confidence and trust.

It appears that in the Indian context a bank deposit is a more simple, more easily intelligible and more convenient asset than any other financial asset. Hence, real ingenuity would lie in devising new deposit schemes each of which can be tied to an important motive to save. This is a subject on which much greater thought needs to be given than is currently realised. Further, it is also necessary to devise a rational structure of interest rates — both from the point of view of attracting saving in the form of financial assets and from the point of view of selection of projects.

VI

In this connection, a question which needs to be discussed is with regard to the role of the banks in the provision of term finance. In the light of the new guidelines for nationalised banks, the latter would have to provide term finance to small industry (defined in its wider sense) and agriculture. It will be easier for them to do so if the term-lending institutions like the State Financial Corporations, the Agricultural Finance Corporation and the Agricultural Refinance Corporation were to undertake the function of project identification and appraisal in their respective fields. Still there would be cases where banks too will have to evolve adequate expertise for the purpose.

With regard to medium and large industries, it appears that the term-lending institutions like the IDBI and the ICICI would be in a better position than the banks to identify as well as appraise new projects. Once the projects are approved by them, the latter could invite the banks to participate with them in providing the required finance. This is already a current practice to some extent.

VII

The other question that needs to be discussed relates to the provision of term finance by the financial institutions to Government enterprises. Here the question is: if the resources of the term-lending institutions continue to be provided out of the budgetary resources of the Central Government, would it be advisable to canalise these resources back to Government enterprises? Further, if State Government projects are to be financed by the financial institutions, would there not arise the problem of equitable distribution of the resources of financial institutions among the various States? Finally, if the State Governments and the public sector enterprises rely on financial institutions, would it be possible to ensure that such use of funds would be consistent with plan priorities and targets?

If a *national development bank* is started, as has been suggested in some quarters,⁵ with the function of providing term finance to public sector enterprises on business principles and in the light of Plan priorities and investment pattern, some of these problems would not arise. Such a bank can be put in charge of all the capital resources of the Central and State Governments; this can be done by investing it with the authority to borrow in the domestic as well as the external markets. It would, then, rationally allocate these resources to various sectors and Governments in the light of the Plan. However, the actual disbursement of funds should depend on the soundness of projects. The Bank would grant both 'hard' as well as 'soft' loans depending on the sector to which a specific project belongs. The advantages of such a course would be several. Plan priorities would be adhered to: projects would be rationally selected: there would be a continuous watch and supervision at the project implementation stage: the overall efficiency of Government enterprises would improve.

VIII

There are some problems with regard to external financing also. The main sources are: collaboration agreements, suppliers' credit, and international institutions like the World Bank, the International Finance Corporation

and the Asian Development Bank.

With regard to collaboration agreements, the financing is provided largely through capital goods imports, conversion of royalty and technical fees into equity, etc. In a number of cases, these agreements are not in the best interests of private firms and certainly not in the best interests of the country. It would be advisable if a term-lending institution like the IDBI or ICICI performed the function of negotiating such agreements on behalf of the Indian parties. They would be in a position to acquire expertise in this matter and information with regard to current international practices. They could also help the Indian parties in negotiating for suppliers' credit — particularly with regard to its terms and conditions; in this field too there is evidence to believe that the terms and conditions at present are not entirely satisfactory from the Indian point of view.

Many of the functions expected of IDBI or ICICI in India can and should be performed at an international level by institutions like International Finance Corporation and the Asian Development Bank. The latter in fact should be able to help the national institutions like the IDBI and the ICICI in a variety of ways. They could mobilise the required external resources for projects from various external sources; at the same time, they could also provide technical and managerial guidance. They

should develop, for the purpose, intimate relationship with national institutions.

IX

Term finance to industry is a problem vitally related to overall planning. The policies of the financial institutions have to be formulated in the light of the overall Plan policies. This is generally realised.

But it is not realised that financial institutions can help considerably in the process of Plan formulation. For example, with the data available with them, they are in a much better position to judge and appraise current and prospective developments in the fields of industrial output, exports and industrial investment. This information is essential for Plan formulation. Since its importance is not realised, it is hardly processed and used effectively for Plan purposes. Short and medium-term forecasts can be attempted much more fruitfully if the available information with the financial institutions is effectively used for the purpose.

Notes

- 1 Gerschenkron, Alexander: "Economic Backwardness in Historical Perspective", Cambridge, Mass, 1962, p 14.
- 2 *Ibid*, p 14.
- 3 *Ibid*, p 12.
- 4 *Ibid*, p 14.

The Indian Manager of the 1980s

Arabinda Ray

The history of Indian industrial management in the period since Independence has made it quite clear that while we had a strong family and hierarchical tradition, we, unlike Japan, did not choose to exploit it in building our industrial, including management, relation patterns. Instead we chose to adopt norms of the Western world as the massive amount of American management literature that has been absorbed in this country in the last two decades will testify.

At the same time, on a national plane we have adopted socialism as our objective and large areas of industry have been kept strictly reserved for the public sector which is bound to increasingly enter other areas of activity, especially in the consumer goods field, as a direct competitor to the private sector corporations.

How then can we assume that in the period ten to twenty years from today the Indian manager — his background, his challenges, his motivation, his 'extra-curricular' pursuits, everything that makes him up — will not be radically different from what we have known in the last ten to twenty years?

IN the second half of the 1960s it was common in management literature in India to refer to the Indian manager in the 1970s and the challenges that he would face in the decade. It is impressive to make these comments in a manner of writing particularly when the element of futurity is not very long-distant and the mind can easily discern trends which will survive over a period. Now that the 70s have arrived it will soon no longer be fashionable to talk of the 70s and yet the 80s are a bit too distant for establishing easy communion with the reader over prognostications. Nevertheless the dawn of a decade is a most useful point in time from which to look into the next decade that will follow. Any crystal-gazing into that decade, however, must be accompanied by a logical interpretation of forecasts in terms of what has happened in the past and the seeds of the future that lie in the present. Such an exercise, however, enjoys the advantage that human memory being what it is one need not be accountable after so many years!

SOCIALISTIC PLANNING

The history of Indian industrial management in the period since Independence has made it quite clear that while we had a strong family and hierarchical tradition in our environmental culture we, unlike Japan, did not choose to exploit it in building our industrial, including management, relation patterns and chose to adopt instead norms of the Western world as the massive amount of American management literature that has been absorbed in this country in the last two decades will testify. Our trade unions more particularly than management have deliberately strayed from evolving a new style of trade union leadership which would have recognised the play of hereditary instincts in Indian labour. At the same time, on

a national plane we have adopted socialism as our objective and large areas of industry have been kept strictly reserved for the public sector, which is bound, on current indications, to increasingly enter other areas of activity, especially in the consumer goods field, as a direct competitor to the private sector corporations. Nothing that happens around us today gives even the slightest clue that this trend is going to be reversed in any way and it would take a Herculean effort from the private sector lobby in Parliament or elsewhere to prevent a colossal stepping up of the pace of public sector entry into different fields of commerce and industry.

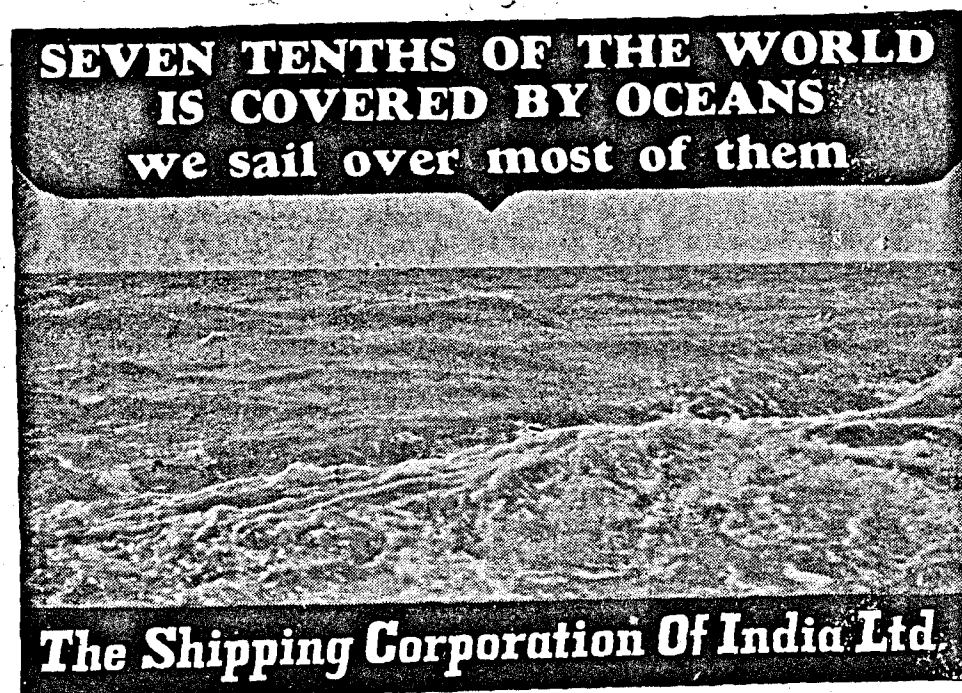
How then can we assume that in the period ten to twenty years from today the Indian manager — his background, his challenges, his motivation, his "extra-curricular" pursuits, everything that makes him up — will not be radically different from what we have known in the last ten to twenty years? Taking 1985 as a median point, the manager of the time will have been born around 1940 with a plus or minus ten year span. He will have grown up in post-Independence India and, almost certainly, will be a product of an Indian university. His generation will have known fully the impact of high taxation rates and the diminishing net value of perquisites, which his previous generation mentally refused to accept in clinging to the memory of more affluent and easy-paced days. Even if he is himself not a technology or management sciences graduate, or an accountant, he will certainly participate in a culture and environment in which they preponderate. Although he himself will still have been brought up to look at values and the world outside India through essentially British and, to a smaller degree, American, eyes he will have had sufficient confrontation with

the generation immediately after him to regard nothing as sacrosanct and he will increasingly rationalise for himself and look for Indian solutions to Indian problems.

NEW MOTIVATION AND ACCOUNTABILITY

If this is the man, his motivation in business will be greatly different from those that have so far existed in Indian business. Professional management today talks of stimulating challenges and other altruistic motives and, whilst in any society there will be exceptions, the real driving force remains the hope of a comfortable standard of living and the substantial terminal benefits that long service with an organisation can provide. But amongst the generation of professional managers in the 1980s, working for the challenges which success in the career entails will be a real priority. Formal education in management sciences will have much more real meaning to him than what his forerunners can honestly profess today, and there will in practice be a great deal of application of such sciences in his daily life, particularly in the sphere of decision-making. The knowledge worker in such circumstances will not feel the same lack of communication as he does today in business and will gradually, therefore, establish himself as a widespread force.

A strong emphasis on accountability is bound to arise under the circumstances — if only as a natural corollary to the pride of a true professional. Today's professional management in India has not found an effective substitute to the entrepreneur's natural stake in accountability in terms of risk capital. Over the 70s, as the gap between capital and management increases and there is a heightening of true professionalism amongst Indian managers, an effective system of accountability is bound to be evolved.



The yardstick of that accountability is likely to be fairly sophisticated. Financial success is bound to predominate in its formulation, but let us note that in the Indian context means of achieving financial success will be significantly different from what it may be in the free full employment societies of the West. Ideologically inspired restrictions on the size of the company on the one hand and, on the other, the simultaneous effect of the restrictions on labour retrenchment and the natural desire of Indian labour to push up wages to Western standards, will call for a most effective system of cost reduction covering material economies and capital utilisation as well as very carefully developed marketing strategies.

However sarcastically the comment may be greeted today it can be assumed that the difference in the quality of accountability as between the public and private sectors will begin to be gradually narrowed down and by the end of the eighties a fairly unified approach should have evolved. And, for the sake of the country, one can only hope that if this can happen in a widely dispersed public sector industrial scene it could quite possibly begin to affect attitudes in Government departments as well.

MOBILITY AND INTERNATIONALISATION

The real predominance of emotional satisfaction in the attitude of the professional manager to his work cannot but encourage a great deal of mobility in his class. As long as attachment to an individual firm entails attractive terminal benefit prospects there will be a damper to this mobility. It is, however, quite possible that with the expansion of public sector industries into new fields of operation and the consequent demand for ready-trained managers, Government will legislate and adopt financial policies in line with existing legislation on provident fund towards a unified transferable system of terminal benefits which will greatly assist this process of mobility.

There is bound to be more internationalisation of Indian management as foreign trade is strengthened and once we are over our food import problems, we should gradually be able to see the day when transfer of capital to start industries abroad will become a regular feature of Indian business enterprises. Everything that we know goes with international living in broadening the base of one's outlook will contribute to the quality of the make up of the

Indian manager's mind. Perhaps the most beneficial effect of this process will be to rid the Indian manager of any complex about himself as viewed against his foreign counterpart. From 40 to 50 years of recorded progress in modern management a reference literature should gradually be building up of Indian management's evolution to play a role in a situation tailored to its needs.

PAROCHIALISM AND LANGUAGE

In discussing the future of any modern-minded class in India one is bound to be drawn into the questions of parochialism and language. It has been said about the professional management class that it serves to promote the unity of India by its cosmopolitanism and mobility. Both these features, however, arise fundamentally from the anglicisation of this class. (The use of the small 'a' is deliberate.) The term does not necessarily connote acceptance of European values in social life, but rather a propensity towards internationalisation of business experience, a sacrifice very often of traditional values which conflict with the greater interests of business. The common denominator of this process is almost always the use of the English language in business and indeed in life outside the family (and very often inside it), the transcending of narrow communal or regional barriers in daily contacts, and an unflagging admiration for the standards of efficiency achieved by Western or Japanese industry.

The basic inspirations of the Indianisation process which the professional management class is said to engender derive their origin from essentially foreign education and values. Will this alter in the eighties? We are unlikely to see this happen, because the generation which will predominate in the management cadre in the eighties will have been brought up in their early youth farther away from their vernacular cultures than even their predecessors were. Almost certainly they will have come from backgrounds of far less parochialism and, therefore, more dependent on the cementing features of the English language than even their predecessors may have felt the need to be. Admittedly they will be operating in an environment which will still breed, perhaps in increasing numbers, protagonists of linguistic chauvinism, but the commitment of the managerial class to the Indianisation process described above should help to maintain *status quo* in the use of English and a

general Indianisation as opposed to regionalisation of the professional management cadre.

POLITICS

Finally, in India in 1970 one must look at the future with misgivings about political stability. For the purpose of this crystal-gazing a unified India must be given as a base for prognostications. Will, however, the management cadre play a more active part in the lobbies in Lok Sabha and State Assemblies? If the effectiveness of the management movement is established in India by examples and results, and the present awareness of the importance of good management of national resources continues to rise, then the managerial class is bound to play an increased consultative role in the formulation of national policies.

It is unlikely, however, that such contributions will best be made through parliamentary lobbies. One would rather think in terms of much increased participation in advisory boards, commissions, etc, both as individuals as well as representatives of chambers, or even management associations which are today in the background in such consultative processes. But probably the most significant contribution to the shaping of policy will come from the top management of the growing public sector industries to which reference has already been made. Let us hope that with the closing of the gap between the public and private sectors, the policy derived from such advice will be of more universal application than it is today.

FFHC Aid Projects

CONTRACTS for two new aid projects under the United Nations Freedom From Hunger Campaign programme were signed this month by FAO and the Indian Freedom From Hunger Society.

The two projects comprise the installation of a pilot rice mill in Kaira District, Gujarat, and a plant for the utilisation of carcasses of fallen animals in the Bombay suburban area. Both projects together involve international aid totalling US \$ 191,600. This amount is to be provided by Danish government aid funds. FAO will provide three experts and consultants, and various equipment.

The contributions of the Indian FFH Society will be equivalent to about US \$ 318,000 in the form of cash to be used for counterpart personnel, various facilities and materials.

Parsi Seths as Entrepreneurs, 1750-1850

Amalendu Guha

This paper traces the growth of the Parsi business community over a period of 100 years till 1850. The author suggests that in the favourable circumstances then prevailing, a modern ship-building industry should have been the natural outcome of Parsi enterprise but for the hostility of the then ruling power which by discouraging the incipient ship-building and navigation industry halted and distorted a potential industrialisation process.

The growth of the Parsi ship-building industry during this period did not take place in a vacuum. It had the congenial environment of overall, multi-dimensional progress of the Parsi community. Even finance, without which no potential industry could have made any advance, was becoming highly organised and was abundant.

At the same time, the Parsis were prudent enough to avoid competition with the British. They collaborated with British agency houses as brokers or junior partners or as both. They entered into a symbiotic patron-client relationships with the British. Every Parsi millionaire had one or two British patrons. The former lent their money, the latter their imposing names and this worked remarkably well in the colonial business world.

The Parsis also found it convenient to put Europeans in charge of their ships. Further, the practice, which was almost customary with the Parsis, of apprenticing their wards with European firms further strengthened their ties with the British business community.

The Parsi business community thus emerged as a comprador capitalist class right from its origin. In fields ranging from supply of cotton to the British textile industry to distributing British manufactures all over northern, central and southern India and the marketing of contraband opium from China, their role was crucially useful to British interests. Shipping was, however, the one exception; here the initial success of the Parsis in developing an indigenous shipping industry was definitely frowned upon by the British.

[H Raikar prepared a card index of names and other antecedents of all Indian ships mentioned in the relevant documents for the period for my use. This was helpful for cross-checking information obtained from diverse sources.]

I
MUCH has been written regarding the emergence of the modern Indian business class in the course of the last century but an integrated, comprehensive pattern of this evolution has not yet been satisfactorily traced. The middle of the 19th century is generally taken as the starting point of the modern industrialisation phase in India. A survey, yet to be published, of Indian entrepreneurial growth which I had undertaken at the Gokhale Institute of Politics and Economics suggests that several Indian business firms — European, Parsi and Bengali — had been already involved in a number of infructuous industrial ventures before the establishment of the first Indian-owned cotton textile mill in 1854.

In this short paper, I shall trace the growth of the Parsi business community, in particular in its transitional phase over a period of 100 years till 1850. It will be shown that, under the favourable circumstances then prevailing, a modern ship-building industry should have been the natural outcome of Parsi enterprise but for the apathy of the then ruling power. We suggest that it was by deliberately discouraging the incipient ship-building and navigation industry that a potential industrialisation process was halted and then distorted

by the mid-19th century. In this paper, we shall limit ourselves to the period 1750-1850 and to the Parsi community.

II

It is during the last quarter of the 18th century that the mercantile capitalists of Bombay began to show increasing interest in European forms of business organisation, development of shipping and ship-building, exploration of new markets and acquisition of a working knowledge of the English language. Of the local merchant groups, the Parsis had been the quickest to adapt themselves to the changed political circumstances. Holden Furber has noted that as early as 1750 the Parsi trading capital at Surat was placed entirely under European (Dutch and English) protection, while the respective shares of Hindu and Muslim trading capital under European protection at Surat was estimated, by a contemporary observer, at 38 per cent and 4 per cent only.¹

As the importance of Surat as a port gradually declined over the second half of the 18th century, and that of Bombay increased, there was a definite shift in the composition of the Indian overseas trade sector increasingly in favour of the Parsis. By 1780, the Parsi population of Bombay city rose to 3,000 in

the total population of one lakh. By 1811, this number increased to at least 10,000, while the city's total population doubled. By 1844 the Parsi population of Bombay city increased to an estimated 29,000 and that of the city to some 5 lakhs. This rapid increase was due mainly to large-scale migration of the community from rural Gujarat as well as from such decaying urban centres as Surat and Broach. The migrants were predominantly impoverished farmers and artisans.

By 1800, Parsi business firms or their branches were found in many important places all over India and in Canton. For example, in 1797 Parsi firms handled 11.2 per cent of that part of Calcutta's export trade with London which was in non-European hands; the comparable share in the hands of the local Bengali Hindu firms was only 11.4 per cent.² The first Parsi appeared on the China coast as early as in 1756, and since then the Parsi firms were increasingly taking part in the China trade. In 1809 there was only one private English trader in Canton as against several Parsis residing there. In 1831 there were 32 Englishmen and 41 Parsis in China; in 1833, 35 and 52, respectively.

The available incomplete data, tabulated in Table 1, roughly indicate that the proportion of Parsi firms to the total

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TABLE 1: TWO LISTS OF BOMBAY FIRMS

Group	1792*	1805**
Hindu	28	15
Parsi	11	18
European	8	9
Portuguese	—	3
Armenian	7	—
American	—	4
Muslim	4	4
Total	58	53

* Bombay Directory of 1792.

** Gazetteer of Bombay City and Island, I, (Bombay, 1909), pp. 152-4.

number of firms (important enough to be enlisted) increased sharply from 19 per cent to 34 per cent over a 13-year period. The Bombay Insurance Society, which is said to have survived till 1865, had in 1792 altogether 28 members — 22 European, 4 Parsi and 2 Hindu. In Table 2 an attempt has been made to compile a list of the leading Parsi traders at the close of the 18th century.

If a single business sector is to be named that absorbed sizeable investments in the last decade of the 18th century, it was undoubtedly merchant-shipping. Table 2 reveals that the Parsis of Bombay owned as many as 20 ships in 1792. The Bombay shipping list for 1795-96, together with other relevant sources, reveals that out of 59 European-captained country ships (total tonnage: 17,284) belonging to Indian ports at least 11 (with a tonnage of 8,673 tons) belonged to Parsis; yet another three ships (915 tons) of this group also probably belonged to them. Thus, the Parsis owned more than half the tonnage of all European-captained Indian ships touching the port of Bombay in that year.³ It is not possible to find out the ownership pattern of the Indian-captained ships in the list — 23 in all (4,572 tons).

ITINERARY OF A PARSİ SHIP

We have some interesting details about the Parsi ship ANNA (750 tons), built on the Bombay Dockyards by a Parsi master-builder and owned by Pestonji Bomanji Wadia (1758-1816). With a European Captain and a Second Mate on board, she sailed from Bombay on November 9, 1792 with a cargo of raw cotton, passed through the Sunda Straits on January 1, 1793 and stopped at Batavia for wood and water. Leaving Batavia on January 13, she made the island of Borneo, skirted Celebes, sailed up the west coast of the Philippine Islands, and at last anchored at Macao on April 18, 1793. Four days later she moved to Whampoa opposite Hong Kong. During her six

weeks' stay in China, she took a cargo of soft sugar, sugarcandy, tea, silk, alum paint, nankeens, camphor, beads, etc. On her return voyage, she touched New Guinea, sailed through the Molucca Islands and the Sunda Straits, and after escaping the chase by a French privateer, safely returned to Bombay on October 21, 1793.⁴ The outward voyage took five months to reach China and the return voyage a month less. By January 1794, ANNA was ready for the next sail. Thus the venture must have blocked a huge working capital for a whole year.

SHIP TECHNOLOGY

Parsis were known to be expert ship-builders right from the 17th century. Besides the Company-owned Bombay Dockyards, there were also in our period small, private ship-building yards all along the western coast. On the Bombay dockyards, some 500 ship-carpenters, mostly Parsis, worked in 1781, under Parsi master-builders. Their number increased to a thousand or so by the turn of the century and 2,000 by 1847. Ships were built in the traditional manner, but incorporating, at the same time, useful techniques and features of European vessels. Bottoms were half as thick as those of the same kind built in England. The planks were rabbeted — and never caulked like in European ships — as high as the second or third plank above the bands. Rabbet joints were pitched with boiling hot dammar or gulgul (sometimes with oakum). Then a covering of fine, clean cotton wool was fixed on them. After giving a chunam coating, the vessel was often coppered. Copper-sheathing was universally accepted by the European navies in the 18th century, but its wide acceptance by merchantmen awaited the early decades of the 19th century. Hence, in the introduction of copper-fashioning of merchant-vessels, India was not behind Europe even as early as 1795.⁵

In fact, for at least two centuries, ship-building on the western coast had undergone slow but continuous technological transformation under European impact. Ships were built to look like European ships to deceive pirates by their appearance, since the latter had respect for European gun-boats alone. More durable sails and hemp cordage were often put into use; better anchors, nails and, later, even oaken masts were imported from Europe. Two-fifths of the outlay on building a country ship was often on imported equipment.⁶ Thus, India-built teak-ships were able

to add speed to their traditional quality of durability and cheapness.

Nevertheless, the outmoded form of the bow known as the "grab bow" and the old pattern of square stern and quarter galleries persisted. According to W H Coates (1911), these conservative features put Indian ships at a disadvantage. But these features gradually tended to recede after the year 1800. For in that year a new era of designing was ushered in as a result of the British Navy's new policy, under the pressure of the French and Napoleonic Wars, of building some of its sophisticated big gun-ships on Bombay Dockyards. A boom in the Indian ship-building industry followed the slackening of the Navigation Laws (1600-1849) during the period of the Revolutionary and Napoleonic Wars. From 1794 onwards, country ships were allowed to sail for UK, provided they carried foodgrains to meet the food scarcity there. Twenty-seven such vessels from India sailed for UK in 1795. Indian ships had also a market abroad. We shall discuss this aspect in greater detail in the next section.

III

The period from the Revolutionary and Napoleonic Wars (1793-1815) to the Opium War (1839-42) was one of unprecedented growth in Parsi trading capital out of the profits of raw cotton and opium exports. These two articles together constituted 32 per cent of India's total merchandise exports in 1828-29, 46 per cent in 1833-34 and 40.5 per cent in 1849. Brewing, carrying trade, banking and land speculation supplemented these sources of profit. Parsi merchants had their ships built mainly for carrying the merchandise of their own trade. But many of the ships were chartered by the East India Company in times of war for carrying provisions and soldiers.

It appears that during the years 1810-15, the Wadias had 18 ships (10,000 tons or so), the Dadyseths 6 ships (5,000 tons), Readymoneys 4 (3,000 tons), Banajis 4 (3,000 tons), Patels 2 (1,000 tons), Narielwallahs 2 and Calcutta-based Parsis 6 to 8 ships (2,000 tons) or so. The Cama family and Sir Jamsetji Jijibhai (1783-1859) had not yet started their great shipping careers. However, they and/or a few more Parsis must have severally owned another 10 to 15 vessels, big and small. It is most likely therefore that some 25,000 to 30,000 tons of shipping or 8 to 10 per cent of the country's total tonnage — we estimate India's shipping

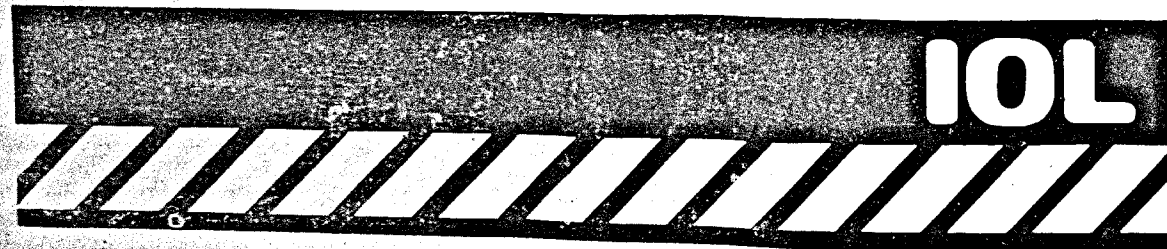
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TABLE 2: LIST OF LEADING PARSİ CAPITALISTS OF BOMBAY, 1792
(Not Exhaustive)

Names			Ships Owned	Some Details
(1)	Hirji Jivanji (-died 1794)	Readymoney	2	Member of Panchayat, 1787. First Parsi to visit China in 1756.
(2)	Sorabji Mancherji	Ready-money	1	Hirji's nephew. Member of Panchayat, 1787.
(3)	Framji Manokji (1750-1804)	(Wadia?)	1	A master ship-builder. His 750 ton ship, (according to Parkinson, p 339) had 4 European officers, 75 lascars, 12 guns. This ship, earlier in 1788 owned by Chilabys, was named 'Gangavar'. Later acquired four more ships.
(4)	Pestonji Bomanji (1758-1816)	Wadia	4	Later acquired four more ships. Member of Panchayat in 1818.
(5)	Hormusji Bomanji (1766-1826)	Wadia	1	First Wadia to enter trade. Later owned four ships.
(6)	Nasservanji Manokji (1754-1814)*	Wadia	1	Son of a freight-broker. Member of Panchayat in 1787.
(7)	Dady Nasservanji (1734-1799)*	Dadiseth	2	A contractor at Commissariat. Member of Panchayat in 1818.
(8)	Manokji Pestonji	Shroff	1	Had business with the State of Travancore.
(9)	Cursetji Manokji (1764-1844)	Shroff	1	Agent for Pestonji at Bassein. He first went to China in 1789.
(10)	Nowroji Cowasji	Narielwalla	1	China Agent.
(11)	Dorabji Rustomji (1754-1804)	Patel	1	Owned a ship in 1811. Member of Panchayat in 1818.
(12)	Cowasji Rustomji (1744-1799)	Patel	1	Member of Panchayat in 1787.
(13)	Rustomji Dadabhai (Nadersaw?)		1	Member of Panchayat in 1818.
(14)	Mancherji Dorabji		1	China Agent.
(15)	Bairamji Nanabhai Davar		1	Later owner of a coach manufactory.
(16)	Framji Nanabhai (1753-1820)*	Davar		
(17)	Dorabji Fardunji			
(18)	Bairamji Motabhai			
(19)	Burjorji Dorabji	Dadybarjorna		
(20)	Edulji Bomanji			
(21)	Pallonji Bomanji	Palkhiwalla*		
Total			20	

*. Member of the Insurance Society of Bombay.

Source: Compiled from the merchants' list reproduced from the Bombay Directory of 1792 in J. Douglas, "A Book of Bombay", (Bombay, 1883), pp 546-7 and a Parsi shipowners' list for the same year in W H Coates, "The Old Country Trade of the East Indies", (London, 1911), p 51. Biodata and other details are collated from published biographical works.

tonnage for those years at an average 3 lakh tons — belonged to the Parsis.

The fixed capital investments in their ships must have thus amounted to some Rs 8 to 10 million, calculated at an average cost of Rs 320 per ton. An estimated 3,000 to 4,000 sailors were in their direct employment. The average size of their ships was much bigger than that of the European-owned country ships. These are rough estimates based on fragmentary data scattered over a number of sources (see, bibliography).

When the Company's own ships were put on sale after the grant of the 1833 Charter, the Parsis purchased many of them. Of the 49 country ships (27,274 tons) sailing out of or belonging to the port of Bombay in 1838, 18 belonged to Parsis, 2 to Europeans and 29 to other Indians.⁷ It appears that in the

decade 1835-45, the Parsi community was at the zenith of its ship-owning career. The Banaji family owned some forty ships at this time, as against 4 in the years 1810-15. They lent at least 14 vessels to the Company for use in the Opium War. Sir Jamsetji Jijibhai had 7 ships of his own and several others on hire at one time. He had his own private docks, according to Postans (1838), obviously for servicing his huge fleet.

ROLE OF BOMBAY DOCKYARDS

The Company-owned Dockyards of Bombay proved themselves to be much more conducive to local skill formation than the private European dockyards that existed in Bengal. While a core of Indian master-builders and artificers was nurtured in Bombay, the private European Dockyards in Bengal entirely de-

pended on migrant European skill. The Bombay Dockyards helped the transition of the Parsi outlook from its mercantile to industrial phase. Nowroji Jamsetji Wadia (1774-1860), the reputed master-builder, assembled the 411-ton steam-sloop HUGH LINDSAY for the EI Company in 1829. Inspired by this event, Ardeseer Cursetji Wadia (1808-77), a young dock apprentice, began to study privately the theory and practice of steam engines. With the assistance of a local blacksmith and an imported piece of steam-engine, he launched a tiny 60-ton steamboat in 1833. Next year he again came into limelight by lighting his house with improvised gas and introducing steam pumps for watering his gardens. Cursetji was elected in 1840 the first Indian Fellow of the Royal Society (FRS), while on a visit to UK, for his outstanding merit. He and two other Wadias qualified themselves in UK as marine engineers in the early 1840s and returned to India. Thus the dockyards helped create a core of Parsi engineers already a few years before the first batch of ten civil engineers graduated from the Elphinstone Institute in 1847. Of this latter group, 3 were Parsis, 6 Hindus and 1 European.

At least three outstanding entrepreneurs who had their early training on the Bombay Dockyards need special mention. Jamsetji Dorabji Naegaumwalla (1804-82) began his career there as a ship-carpenter. Later he entered independent business as a contractor, constructing salt-pans for a Parsi trader, and ended up as a big contractor in railroad construction for the GIP Railways in the 1850s. Dhunjibhoy Rustomji Wadia (1799-1854), an employee of the Bombay Dockyards, built ships also at Cochin and, some of the world's fastest clippers in Calcutta in the course of his long building career. Bomanji Framji Warden (1828-85), an apprentice fitter on the dockyards, was later sought after as a selfmade mechanical engineer in the cotton textile industry.

Banking upon Dunjiboy's skill, Rustomji Cowasji Banaji (1792-1852) formed the first Indian-owned modern ship-building concern, the Docking Company of Calcutta. He had purchased the Khidirpur and Salkia docks in 1836 at the cost of Rs 0.6 million for this purpose. The Docking Company paid, under his secretaryship, a 16 per cent dividend in 1843. Rustomji was also one of the founder-directors of the European-dominated Indian General Steam Navigation Company founded with an



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TABLE 3: SHARE-CAPITAL OF THE BANK OF BOMBAY, 1840

	European	Parsi	Hindu	Indian Christian	Muslim	Government	Total
Amount (Rs '000)	3261	1233	327	49	55	300	5225
Per cent of total	(62.4)	(23.6)	(6.2)	(1.0)	(1.1)	(5.7)	(100)

Source: C N Cooke, "The Rise, Progress and Present Conditions of Banking in India", (Calcutta, 1863), p 165.

initial capital of Rs 2 million in 1844 (it survived to celebrate its centenary). When the 12-member "Precursor Scheme Committee" was formed to promote a Calcutta-Suez steamer service, he was one of its four Indian member-subscribers. He had one of his sons as a director and trustee of the Bombay Steam Navigation Company (1845-63) formed with an initial capital of Rs 1 million, divided into 200 shares. Two of the three trustees of this Company were Parsis, the third a European. Rustomji had interests in a number of European insurance companies, started a cotton baling screw and a small paper manufactory at Calcutta and was an important shareholder of the Union Bank (1829-47) of Bengal. The failure of this bank struck a severe blow to the economic empire which he and his two sons had built at Calcutta, Bombay

and Canton.

Jijibhoy Dadabhoy (1786-1849), a trustee-cum-director of the above mentioned Bombay Steam Navigation Company, also had controlling shares in the steamer *SIR JAMES RIVETT CARNAC*, engaged in coastal shipping. Incidentally, he also made intensive advances on coffee, sugar, coconut and other estates on the Malabar coast and owned a coffee estate in Ceylon.

Thus we find that the first half of the 19th century witnessed an allround development towards an indigenous navigation and ship-building industry. Early entrepreneurial efforts in other fields also were not lacking. Pallonji Boma:ji Palkhiwalla's modest carriage-building manufactory, started in 1808, remained a going concern. Rustomji's elder brother, Framsi Cowasji Banaji (1767-1851), who owned half-a-dozen ships, founded a big horti-agricultural farm at Pawai around 1830 and tried to run it on scientific lines. He was an active member of the Bombay Branch of the Agro-Horticultural Society of India and the founder of an English newspaper (forerunner of the *Times of India*). His attempt to establish a silk-weaving factory in 1845 was, however, a failure. All these were first feeble attempts by

traders, some of them merchant-princes, towards industrialisation. The lone artisan-employee who had directly grown into a captain of industry in the same line was Sorabji Shapurji, the foreman of East India Company's Gun Factory at Bombay. He established a small iron and steel foundry in Bombay in the early fifties, with imported machinery. Later he also built a cotton-cleaning plant as well as a flour mill.

Parsi shippers began to use baling screws as early as 1780s. Maria Graham (1812) described the operation of a huge manually-operated cotton screw at Bombay Port, worked by as many as 240 workmen at a time. Screws were the only machines which were being increasingly imported into India by the cotton traders in the early 19th century. By 1850 they were fairly in use in western India; steam-driven screws were introduced only after 1850. Until 1824 the entire surplus cotton of Berar found its way to Calcutta over 1,500 miles of circuitous route via Mirzapur for final sale to the Bengal and China markets. But meanwhile the continuous and rapid decline in Bengal's handloom industry created a glut in the Mirzapur cotton market. Some Parsi entrepreneurs intervened to divert Berar cotton to Bombay port by using a heretofore unused route, which was more difficult but shorter by 1,000 miles than the one to Calcutta via Mirzapur. The merchants had to build bridges in places and improvise cart-roads over the Ghats.⁸ Merchant-capital penetrated far and wide in the cotton-growing area of the Deccan, in the form of advances to the cotton-growers. It was also involved in an intermediate stage of processing the raw materials — baling and screwing. Spoke-wheeled bullock-carts were, for the first time, extensively put into use in the Deccan, wherever road conditions permitted their use. This innovation was an improvement on transport by pack-bullocks. Pestonji Sorabji (1790-1861) of Poona engaged 700 horses and numerous conveyances, in the 1840s, for operating daily some 500 runs carrying mail between Poona, Aurangabad, Nagpur and Bombay.⁹

The first Indian-owned printing press also belonged to a Parsi of Bombay, about 1780. During the following decades, a viable printing industry developed, to which the Parsi contribution in western India was considerable. The founding of the first Gujarati types as well as printing press (1812) and the first Gujarati periodical (1822) — all these owe to Parsi enterprise. By 1840 the Gujarati Press began to play an important role in integrating the Gujarati-speaking elite of the region. But, in the short run, it served a narrower purpose. In the wake of the first publication of Parsi religious books (since 1815), at the initiative of the great revivalist Mullah Feroz (1785-1830), the community began to rediscover its past with a new spirit of confidence. It began to emphasise its distinctiveness from the rest of Indian society, as if to lean more towards the West. It sought power and prestige by continuously adjusting its economic interests to those of the rulers, and through a rapid process of Westernisation of the community itself.

Thus we find that the growth of the Parsi ship-building industry during the first half of the 19th century was not in a vacuum. It had the congenial environment of overall progress of the society which was multi-dimensional. Even finance, without which no potential industry could have made an advance, was becoming highly organised and was abundant. Amongst the Parsi bankers of the early 19th century, special mention may be made of Vikaji Meherji (1781-1853), Pestonji Meherji (1799-1854), Sir Jamsheji Jijibhoy (1783-1859), Jijibhoy Dadabhoy (1786-1849) and Dadabhai Pestonji Wadia (1802-85).

The first two hailed from a family with a farming background and were revenue-farmers for Bassein under the late Peshwas. Under early British rule, they were appointed as revenue-farmers for sea and land customs of some districts of Maharashtra. They were also engaged in raw cotton imports on a large scale. In 1830, they were invited by the Nizam to open banking operations in his territories. During the decade 1835-45, their direct advances to the Nizam amounted to at least Rs 18 million. However, the Nizam's inability to repay caused the failure of their firm in 1851. When the European-dominated Bank of Bombay was established in 1840, one-third of its 333 shareholders were Parsis, contributing 23.6 per cent of the Bank's share capital. The contributions of the different groups to the share capital are shown in Table 3.

By 1848, the proportion of share-capital held by the Parsis decreased to 16.8 per cent; that of the Europeans increased at the cost of other groups.

Sir Jamsetji whose firm was known to be "the best-managed business this side of the Cape" was the only Indian director of the Bank of Bombay in 1843. His deposits in this Bank, at one time, amounted to Rs 30 million. Even in the Bank of Bengal, the Parsis held a sizeable number of shares at this time. The Bank of Western India established in 1842, at joint British-Parsi initiative, was reorganised as the Oriental Banking Corporation in 1844. Dadabhai Pestonji Wadia, mentioned above, owned at one time, a reported three-eighths of its share-capital. After its Head Office was removed to London in 1845, the Commercial Bank of India was floated in the same year. Half of its promoters were Parsis, though the control was again, invariably, in European hands. Lastly, we make a mention of Kharsetji Nassurvanji (1776-1852) who continued to carry on the insurance business, which he inherited from his father. The Sun Life Office, a European concern, was being represented by individual members of the Banaji family at Bombay, Calcutta and Canton. Thus the Parsis did not lag behind in the use and development of modern financial institutions as well.

We have shown above that the Parsi

community was undergoing a process of continuous social and economic change during the years 1750-1850. They moved from villages to towns and from manual occupations to trading and skilled jobs. By 1850 Parsi trading capital was thus ready for making investments in industries. In modern education, they went ahead of other communities. For example, out of 654 pupils in 9 vernacular girls' schools in Bombay in 1848, 60.8 per cent belonged to the Parsi community, although it constituted only 5 per cent or so of the city's population. It is a pertinent question therefore to ask why the Indian shipping industry of the early 19th century, led by them, failed to make headway despite favourable circumstances? It should be noted in this context that there were also simultaneous similar activities in different fields at the initiative of other Indian business groups and, in particular, the British mercantile community. Heath's iron works in South India were one such important activity.

IV

The mercantile policy of UK that persisted right upto 1849, with a short-lived relaxation during the years 1794-1816, was very much responsible for putting a brake on the potentialities of the Indian navigation and ship-building industry by excluding India-built

ships from European waters. Even during the period of liberalised Navigation Laws, various constraints were put on India-built ships. For example, India-built ships were not allowed to carry regular cargo on their return voyages. Their entry to British ports was on condition that they would be offered for sale there. In case they could not be sold, they could qualify for a return voyage only by offering their shipping space for loading by the EI Company. By Acts of 1814 and 1823, the Navigation Laws were once more tightened, providing compulsorily for the employment of 4 British seamen for every 100 tons of the ship's tonnage as well as of a British captain. It is recorded that in 1835, an Indian ship, *Sir Charles Malcom* (886 tons), owned jointly by a Parsi and a Britisher, was forced to take on a full British crew of 36 in addition to her 90 Indian lascars and 6 British sailors already on board in order to qualify for a return voyage in ballast.¹⁰ This is how Indian ships were penalised when they attempted direct trade with UK, violating the Navigation Laws. More examples of such harassment could be cited.

The most powerful business group in India was that of the British free traders. With a large ownership in shipping and a near-monopoly of marine insurance they prospered rapidly under the direct patronage of the most imposing

political power. "The shipping magnate who dined with the Chief Secretary to the Government had an immense advantage over the shipping magnate who did not."¹¹ In unfair competition with them, the Muslim shipping and trading interests who had been more important till 1750 than any other private group, rapidly went into the background. The Parsis were prudent enough to avoid competition with the dominant group. They collaborated with the British Agency Houses, as brokers, junior partners or as both. They entered into a symbiotic patron-client relationship with them precisely to use their good offices as protective shields against discrimination. Every Parsi millionaire had one or two such British patrons. The former lent their money, the latter their imposing names; and this worked miracles in the colonial business world.

On the same considerations, *inter alia*, it was found convenient by the Parsis to put Europeans in charge of their ships. With easier access to the seats of power, a European employee was always expected to manage all sorts of troubles better than any Indian. Matters such as convoy, naval protection, intervention with Native Powers, etc, could be settled by him across the dinner table with the officers concerned. On the same considerations, again, the Parsis innovated the useful practice of apprenticing their wards with European firms. This practice, which was almost customary with them, further strengthened their ties with the British business community.

FAILURE IN SHIPPING

Under this triple alliance, the Parsi business community emerged as a comprador capitalist class, right from its origin. In fields ranging from supply of raw cotton to the British textile industry to the marketing of contraband opium in China, their role was crucially useful to British interests. Similarly, in introducing and distributing British manufactures all over northern, central and southern India, the services of Parsi shopkeepers were appreciated. But the initial success of the Parsis towards the development of an indigenous shipping industry was frowned upon. One Thomas Barnes told a Select Committee of the House of Commons (Minutes of Evidence on Petitions Relating to India-built Shipping, 1814, p 58) that he "would rather remove the manufactory of broad cloth to India, than the manufactory of ships" (emphasis ours). What he wished was already the British policy in practice — the policy of

protection at home and free trade abroad.

The first half of the 19th century was a period of slow transition from an era of sailing ships to that of steam-boats. But steam-boats were not yet a feasible proposition for long-distance ocean voyages, as they had to stop frequently at ports to reimburse their stocks of coal. They became so only around 1860, with their all-iron bottoms and other improvements. Hence the Indian shipping industry would have had enough time to have a smooth transition to iron steam-boats, had the colonial administration been less apathetic.¹² But it was not so. The British Navy stopped purchasing India-built ships. The Indian Marine Service, instead of being expanded, was closed down in 1863. Besides, the Indian economy experienced an acute depression during the years 1847-50, when a number of Parsi firms were ruined. By this time what UK required, and did, was the replacement of its erstwhile protective, mercantilist policy at home by one of free trade. But what India required at this juncture was a policy of vigorous protection in place of the erstwhile free trade. As this could not be achieved under the colonial regime, whatever had been achieved in the navigation and ship-building industry was exposed to disaster. The transfer of the Mughal Docks, privately-owned by Aga Muhammad Shiraji, to the P and O Lines around 1847 coincided with the ominous end of a glorious era. This is how the clock of India's industrialisation was set back by half a century.

In a subsequent article the behaviour pattern of the Parsi mercantile group during this period will be discussed.

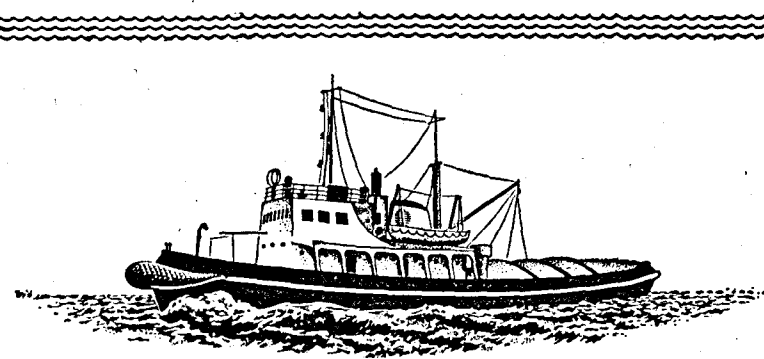
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- (15) Relevant Gazetteers, Parliamentary Papers and biographical works.

Notes

- 1 Holden Furber, "Bombay Presidency in the Mid-Eighteenth Century", (Bombay/London, 1965), pp 64-65. According to the same estimate, Hindu firms controlled almost half, Muslim firms one-third and the Parsis one-tenth of the total capital of Rs 8,742 thousands in the trading sector in non-European hands.
- 2 Worked out from data from Bengal Commercial Report cited in A Tripathi, "Trade and Finance in the Bengal Presidency 1793-1833", (Calcutta, 1956), pp 86-7. Only 15 per cent of Calcutta's export trade with London was in the hands of the non-Europeans — Armenians, Telengas, Arabs, Bengali Hindus, Parsis and Indian Muslims in a descending order.
- 3 D R Bhandarkar, "Shipping in Bombay in 1795-6" in Indian Historical Records Commission, "Proceedings of Meetings, XIII, December 1930, (Calcutta, 1932), pp sources for identifying Parsi owners 73-84. Cross-checked with other ship.
- 4 James Purefoy's letter reproduced in extracts by G C Duggan "From Indian Waters: Some Old Letters" in *Journal of the Royal Asiatic Society*, Parts 1-2, 1958, pp 1-7.
- 5 Marine Records (1795) cited in R A Wadia, "The Bombay Dockyard and the Wadia Master Builders", (2nd ed, Bombay, 1957), pp 189 and 104-5.
- 6 C N Parkinson, "Trade in the Eastern Seas 1793-1813", (London, 1937), p 333.
- 7 "Bombay Almanack, 1838" cited in the Report of the Select Committee on East India Produce (H of C, printed July 21, 1840) pp 613-14.
- 8 J Chapman, "The Cotton and Commerce of India", (London, 1860), p 75; D F Karaka, "History of Parsis", (London, 1884), p 126.
- 9 H D Darukhanawalla, "Parsi Lustre on Indian Soil", (Bombay, 1939), pp 109-10.
- 10 Report from the Select Committee on the East India Produce, *op cit*, pp 285-6 and 611.
- 11 Parkinson, *op cit*, p 334.
- 12 In fact, in the 1850s, and eighty-ton steamer was built entirely from locally manufactured components on the Bombay Dockyard. This indicated the potentiality.



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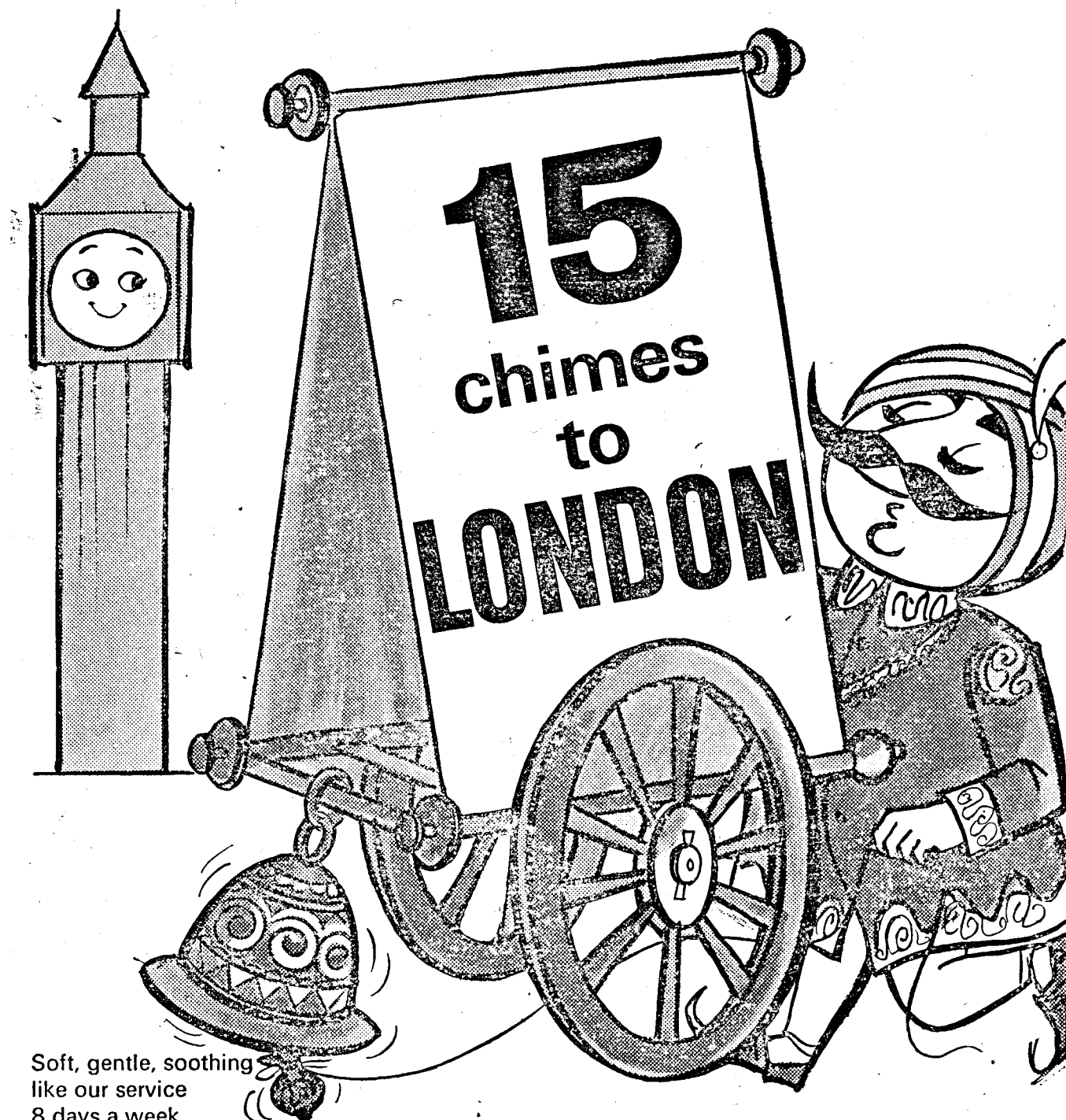
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SOUTH

Telengana—Indira's Moves

Mohit Sen

THERE has been a new flurry of activity in both Hyderabad and New Delhi over the Telengana problem. What causes some surprise is the timing of these confabulations and moves. After the Khairatabad by-election, which was a morale booster for Chenna Reddy's Praja Samiti, there have been the Statewide panchayat elections which demonstrated that the ruling Congress, especially the Chief Minister, had substantial majority support in the Telengana districts as well. It is true that panchayat elections are not always accurate political indicators. It is also true that Brahmananda Reddi's triumph at the zilla parishad level was due, in some measure, to the MLAs, MLCs and MPs as also to the indirect nature of the elections giving larger scope for bribery and intimidation by whoever happens to be the stronger party at a given moment. Nevertheless, had there been an overwhelming and militant volume of opinion in favour of separate Telengana the sarpanchs and samiti presidents would not have yielded to the threats and blandishments of the Chief Minister.

It might seem that this see-saw movement of political popularity indicators would suggest that the best course was to leave things alone. And yet this is the time when initiatives have been recommended at the highest level.

One cannot begin to understand these moves unless one relates them to the present phase of tactical action by the Prime Minister. Seeing the collapse of the Grand Alliance and having decided that she has to correct the impression of being dependent on the Left, she is busy trying to effect as great a Centrist consolidation as possible. There is a noticeable increase in her impatience with the Left inside her own party, a sharpening of antagonism towards the CP(M) and a definite demarcation from the CPI.

But the tactic of Centrist consolidation is not an easy one to pursue. This is not only because of the inherent amorphousness of the Centre and the stronger regional pulls exercised on this political formation; it is

also because of the many contenders for the leadership of such a consolidation and the many configurations that this consolidation can take. One such, of course, is the consolidation of the collaboration between the "moderates" within the two Congresses, with Chavan as the possible chief. Thus, it is an intricate game that the Prime Minister has to play and it is against this background that her taking over of the Home portfolio assumes real significance.

Now, the position in Andhra is that Brahmananda Reddi seems to be supremely in control of the Congress and also in a position to curb and contain the opposition. Thus far, the Syndicate has turned out to be a damp squib. The Swatantra has shown no signs of being able to extend its influence significantly. The CPI is engaged in mass campaigns for land and is attempting to make up the lag of a decade while the CP(M) is strangely quiescent.

The Telengana separatist movement had the Chief Minister on the defensive for quite some time. The Congress split came to his rescue but Khairatabad revealed that the mood for separation was fairly strong, in the urban areas at any rate. But the panchayat election results seem to have again consolidated his position. It almost looks as if he is far more secure in Andhra than the Prime Minister is throughout the country.

The strengthening of Brahmananda Reddi's position in Andhra is naturally welcomed by the Prime Minister as he is a Centrist *par excellence*. But only up to a point. Just as he will not allow any district Congress leader to become too supreme and independent to the extent of making the Chief Minister dependent on him, neither would she welcome the same thing happening at the State level. So a delicate pull and push stratagem is being followed.

On the one hand, the Chief Minister is being told that whatever reports may have been fed to him, the Central intelligence has come to the conclusion that unless more attempts are made to assuage the wounded

feelings of the people of the Telengana region, the 1972 elections may prove a disaster for the Congress. At the same time, Chenna Reddy has never been noted for adhering to any position for long and the prospect of long years in the wilderness is scarcely alluring for a man of his short-term and short-range ambitions. Not only have the panchayat election results disappointed him but he is rather alarmed at the very poor response to his efforts at making a party out of the Praja Samiti, as also at the miserable showing of the Syndicate which could have become his ally and eventual resting place. Moreover, the gentleman has a pretty vulnerable past about which Indira Gandhi must now have some damaging details in her capacity as the Home Minister. Thus, he is not so averse to some kind of *rapprochement* as he was in the past. Thus, the Prime Minister would gently push the Chief Minister in the direction of Chenna Reddy, serving thereby the twin purposes of warding off a challenge from outside the Congress Centre and interiorising this challenge to the detriment of Brahmananda Reddi's supremacy. A subtle move with many nuances and one which Brahmananda Reddi also knows how to utilise.

Thus, to keep some other fires burning, she has moved to consolidate another kind of alliance, on the other hand. It should not be forgotten that, however weak, there is another factional grouping in the Andhra Congress. This is the Sanjivayya-Raghuramaiah grouping. It is closest to the Prime Minister and of unquestioning fidelity. This group has been losing ground because of the Chief Minister's shrewd tactics as also because he has managed to identify the Prime Minister's cause with himself. This group has always been for a more sympathetic attitude being taken towards the Telengana separatist movement and for accommodating its aspirations just short of separation. It is this group

A Correction

In the Letter from South in the issue of August 15 please read CPI(M) for CPI(R) in the sentence (p 1368, col 3) "The CPI(R), which had entered into electoral alliance with the DMK in the 1967 elections ...".

— Ed.

that has come to some kind of understanding with V B Raju, Nakula Ramachandra Reddy and others of the Telengana United Front, who are not only fed up with the arrogant ways of Chenna Reddy but who believe that this gentleman can strike a bargain with the Chief Minister at their expense.

This new alignment has come out with the proposal to give executive powers to a body which would be responsible only to the Telengana Regional Committee of the Andhra Assembly (which is made up of all legislators of the region). The Telengana Regional Committee would, therefore, take on the shape of an assembly as far as Telengana affairs are concerned. It is as good as the Meghalaya solution found for the hill areas of Assam, falling short only in terms of

formal status and paraphernalia. It is a proposal which could split the ranks of the separatists and yet prove embarrassing for the Chief Minister either to accept or reject. But it would restore the initiative to the Prime Minister. And it would help to maintain an equilibrium in Andhra beneficial to Centrist consolidation as well as to the Prime Minister's leadership of it.

Rather a cynical bit of business. But the proffering of some kind of greater autonomy to Telengana is not a bad thing in itself. What is bad is that these manoeuvrings can go on over the heads of the people in a State which used to be one of the bastions of the Left movement. The tragic consequences of the splintering of the Left are nowhere more in evidence than in Andhra.

WEST BENGAL

Waiting for a Retreat

THE ever-present nightmarish streaks in the life in Calcutta have recently assumed suffocating dimensions. Political murders and police brutalities, followed by *bandhs* in the affected localities have become almost routine rituals in the city and its suburbs. Dislocation and total suspension of public transport due to disturbances are everyday occurrences, just as bombs, crackers and bullets are now the normal accompaniment of their workaday life for the millions of this sprawling conurbation. Between themselves, the Naxalites and the CRP have achieved almost a total breakdown of the educational system. Constantly patrolling truckloads of policemen and stationary pickets with their guns at the ready often compel pedestrians, including children to walk past with hands raised high. All this lends this city the appearance of an occupied area. A Bengali newspaper has aptly compared presentday Calcutta with Saigon.

But despite all this, life flows on. Working men and women hurry to their jobs. Children trot to their schools only to be sent back home by worried teachers or older students on the picket line. Meetings, demonstrations and gheraos take place galore. Lakhs flock to witness the meeting of favourite football teams. And braving hazards of crossfires of bombs and bullets in a blacked-out street, entire

families go to theatres, cinemas and musical soirees in the late evenings.

Even this astounding knack of the Calcutta population for leading a near-normal life in the most difficult circumstances is going to be put to a most severe test in the coming days. The fast rising tensions in the political life of the State are seeking an outlet in an explosion.

The most potent political force in West Bengal, CP(M), initiated this process. Unable to overcome its isolation from the other organised forces, stung by the increasingly hostile, but cunning, manoeuvres by New Delhi and provoked by the continuing sniping by the Naxalites from the flanks, the Party has apparently decided to launch a converging offensive on a wide front against all its enemies simultaneously.

CONVERGING OFFENSIVE

Beginning with the general strike in the Durgapur complex two weeks ago, its grand strategy aims at bringing about, step by step, a total paralysis of the entire State. The continuing strike at Durgapur has already been followed by a one-day *bandh* of Burdwan district. The coming programme embraces State-wide student-youth mobilisation on August 25, seven-day cease-work by secondary school teachers beginning from August 26, three-day general strike by State

Government employees starting from the same date to be followed by the strike of the State transport employees on August 27 and total Bangla *bandh* on the next day. August 31, observed by the Left parties in West Bengal as Martyrs' Day for the last 10 years to commemorate the massacre of more than 80 of the food marchers by the late B C Roy's Government in 1959, will climax this round when lakhs of workers and peasants are to be mobilised in the city to bring about a total paralysis of the administration.

Simultaneously with this confrontation with the power that be, CP(M) has also launched a determined offensive against the Naxalites, formally inaugurated by its Calcutta unit through a public handbill and a communication in the Party's daily bulletin. The offensive embraces physical confrontation as well as political-organisational measures like the ousting of the Naxalite elements and their allies from the leadership of the strategic and prestigious Calcutta Tramway Workers' Union, apparently even at the risk of causing a split thereby.

The Naxalites, on their part, growingly cornered though they are as a result of mounting and ferocious police offensives, and though shocked by the arrest of Kanu Sanyal, their most charismatic leader, are fighting with their backs to the wall with grim determination against both CP(M) and police.

CPI and its formal and informal allies, i.e. constituents of the eight-party front and Bangla Congress, rightly sense that these flexings of muscles by CP(M) are in a way a preparation for the next round of battle of the ballot boxes and they are determined that the Party should not succeed to gain new vantage points. The CPI and its friends, therefore, unashamedly did whatever they could to contribute to the failure of CP(M)'s Durgapur exercises and have begun more sustained preparations for opposing the coming round of mass actions. While parties like Jan Sangh, Congress and Bangla Congress have been openly egging on the Central Government to step up strong-arm action against CP(M) and its mass bases, CPI and its leftist allies have undertaken to work against the strikes from the other—workers' and employees'—end.

An eye for an eye and a tooth for a tooth have for some months past

been the law of the political jungle in West Bengal. A top CP(M) leader was recently reported in the Press to have issued a new order of the day—a corpse for a corpse.

Police, bureaucracy and, of course, New Delhi's Establishment could not dream of a more ideal concatenation in their drive for meeting the challenge of the so-called Left alternative in West Bengal and India. The State police has been streamlined, Central Reserve Police and Central Industrial Security Force and Border Security

BRUSSELS

ECM Reaction to Soviet-German Treaty

THE treaty which the West German Chancellor, Willy Brandt, and the Soviet Premier, Kosygin, signed in the Kremlin (in a hall named after Catherine II of Russia who was German by birth) has been widely regarded as of historic importance. Although it is a treaty renouncing the use of force and not a peace treaty, it has been described as "truly marking the end of the war". The two states which had been the most bitter enemies on the European continent have decided, 25 years after the cessation of hostilities, to bury the past.

Paradoxically enough, the signature of the treaty has been received with very mixed feelings in Common Market circles here. While the treaty is welcomed as an important step towards the normalisation of East-West relations, fears have been expressed as to its consequences. This is hardly surprising. "I hope this Treaty", Brandt told Kosygin, after the ceremony in the Kremlin, "will represent not only the end of an era but also a point of departure for our relations".

The treaty, which must still be ratified by the West German Parliament, marks a turning point in German-Soviet relations and, given the economic and political importance of West Germany, in relations between the countries of the Comecon and Warsaw Pact, on the one hand, and the EEC and North Atlantic alliance on the other. While it is difficult to forecast the changes that may take place in the next 10 years or so, there is no doubt that the signature of the German-Soviet Treaty has set in motion a train of events that could alter the face of Europe in the coming decade.

Force have been pouring in. More are ready beyond the border, reportedly at Mokameh in Bihar. The army is standing by. Laws, Rules and Regulations have been tightened. Indira Gandhi has utilised her second flying visit to this State to put the final touches to preparations for the D-day.

West Bengal is now helplessly waiting for the inevitable blood-letting, thanks to the suicidal proclivities of its Left leaders. Or will there be a last-minute retreat in some quarters?

August 22

several years more.

From the EEC's viewpoint there is a danger, of course, that the Russians and, perhaps, other East Europeans will be only too happy to fall in with German wishes in the matter. According to press reports, much of the talks between Kosygin and Brandt were devoted to trade questions, notably to the possibility of economic and technical collaboration between the two states in the framework of the Soviet Union's current five-year plan. The Soviet Premier reportedly told the German Chancellor, "It is necessary that we establish more numerous contacts in all the economic and technical fields", to which the latter not only replied, "Such co-operation would serve the interests of our two countries", but also promised to send his Minister of Economics, Schiller, to Moscow next month.

Surprising as it may seem, it is the prospect of a change in East-West relations which Common Market circles here find unsettling. The reason is that while a rapprochement between the two halves of the European continent could favour the economic and political integration of Western Europe, it could also result in the withering away of the European Common Market. As West Germany normalises its relations with the Soviet Union and other East European countries, it may be able to persuade them to recognise the EEC and normalise their relations with the Community. Alternatively, the success of the West Germans could encourage their EEC partners, notably the French, to continue dealing with the East European countries bilaterally, thus making it very difficult, if not impossible, for the Community to adopt a common policy towards them.

Common Market officials believe their fears are not altogether groundless. They point to the difficulties which the Community has experienced so far in formulating a common commercial policy towards the Soviet Union and Eastern Europe. The plain truth is that until recently all the Six preferred to deal with these countries bilaterally; they felt that this was the only way to secure the very large orders which they were convinced the East Europeans were going to place. Now that the earlier estimates of the volume of business that can be done with the Communist countries have been revised downwards, their commercial attraction has diminished somewhat, and only the Germans still insist on maintaining the present system of bilateral trade relations for

The prospect of a steady increase in German-Soviet trade within the framework of bilateral agreements are viewed with something akin to alarm in both Common Market circles here, and in the member countries themselves. As it is, West Germany's trade with the Soviet Union is the largest of any of the Western countries: last year its exports came to DM 1,582 m, (as against DM 1,099m, the year before) while its imports came to DM 1,305m, (DM 1,175m, in 1968). Although trade with the Soviet Union accounts for only 1 per cent of West Germany's foreign trade, it has been growing rapidly as has trade with Eastern Europe generally: German exports to these countries rose by some 90 per cent between 1965 and 1970 while her total exports increased by 62 per cent. During this same period French exports to Eastern Europe increased by 65 per cent to all destinations by 49 per cent.

Many experts believe that trade with the Soviet Union and other East European countries offers only limited possibilities, the limits being set by their exports, the demand for which is not very great in the West. However, it must be remembered that West Germany, with its growing balance of trade surplus, is in the enviable position where it must step up its capital exports. One way of doing this obviously would be to extend substantially larger credits to the Soviet Union and other East European countries. The fact that the Comecon bank holds a substantial part of its reserves in

German marks should also facilitate trade between West Germany and Eastern Europe.

The signature of the treaty between Bonn and Moscow can be expected to give a further boost to trade between the two countries. Even before the signature Daimler-Benz was reported to have received a Russian order for the construction of a plant costing DM 3,600m. A more modest order, estimated at a mere DM 150m, is believed to have been booked by Mannesman. Meanwhile, the German chemical industry is happily preparing for the Moscow chemical industries fair in September.

To judge from the comments appearing in the press here, many believe that the radical change in Soviet policy towards West Germany has been dictated by economic considerations as much as political. It is being argued here that the Soviet Union, which has been hopelessly outdistanced by the West in technology, sees in closer co-operation with West Germany the only means of catching up with the West. Advocates of European integration obviously hope that the Russians and their Comecon partners will seize the opportunity to collaborate with all the ECC countries through the Community's institutions in Brussels, but others feel that the Soviet Union will want to keep its relations with the Six on a purely bilateral basis, in order to be able to divide them the more easily.

But the uneasiness felt in Common Market circles here is due to more than a concern for the future of the EEC. The fact is that the German-Soviet Treaty opens the way to changes in the political relations between the two halves of Europe. While it is difficult to foresee these changes it is reasonable to assume that they will result in a further relaxation of tension. A continued thaw in East-West relations could, however, weaken the impetus for political integration in Western Europe, even if the Russians do not try to separate the West Germans from their Nato allies, as some fear.

Common Market reactions to the German-Soviet Treaty suggest, therefore, that the existence of the EEC depends on a maintenance of the *status quo* between Eastern and Western Europe. If there is a substantial improvement in relations between the two halves, the EEC may seem less attractive to West Germany; but any

attempt by Bonn to strengthen its bilateral links with Eastern Europe would mean that the other EEC capitals would follow suit. But a rush by the principal members of the Common Market to deal directly with the

Soviet Union would weaken the Community. And this, according to some observers, is what the Russians are seeking as the negotiations for the enlargement of the Common Market get under way.

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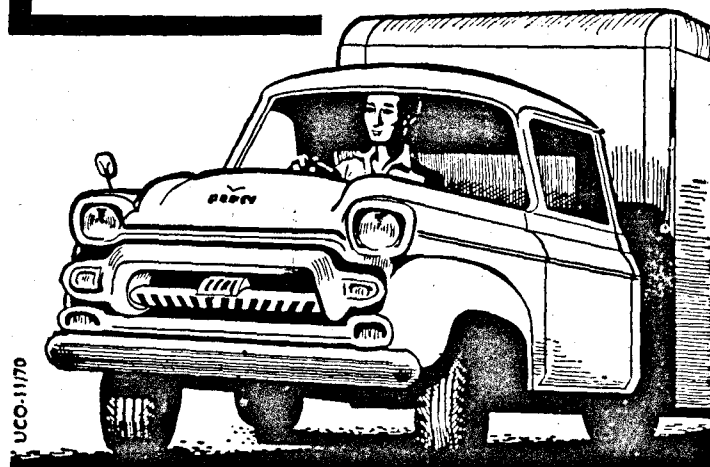
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Lightly, on Familiar Ground

P D Ojha

Problems of Resource Mobilisation in the States, Indian Institute of Public Administration, New Delhi, 1970; pp vi + 130; Rs 10.

THE booklet under review contains a summary of the proceedings of a conference organised by the Indian Institute of Public Administration. The purpose of the conference was to discuss and explore the problems and possibilities of mobilising resources by State governments. In order to help the participants — most of whom were administrators — three working papers were presented on: (i) approach to taxation, (ii) Centre-State financial relations, and (iii) mobilisation of resources from agriculture.

The conference was inaugurated by the Deputy Chairman of the Planning Commission. Among other things, he pointed out that the term 'resource mobilisation' covers much more than taxation. It covers the income from public services, public enterprises and public utilities. All this is a part of resource mobilisation which is open to the States. Despite this, a major part of the discussions centred around taxes.

Some participants thought that, in relation to responsibilities, sources of tax revenues assigned to the State governments under the Constitution were inadequate, while others thought that the powers conferred on the States were not quite so inadequate. They are not less than in other federations' (p 15). A view was expressed that States should try to shift their reliance from commodity taxation to other sources to achieve some progression in the tax structure. There were others who thought that 'to judge State taxation only on its progressivity would be wrong, one must take Central and State taxes as a whole for this purpose' (pp 16, 31).

The Punjab Finance Secretary (pp 22-23) narrated how difficult it was to move to a progressive group of taxes. According to him, a proposal in 1967-68 to tax all land and houses on the basis of their capital value could not be made into law because 'such a tax would be inconvenient to the people at large and especially to the small peasantry'. Further, he felt that a tax on land, based on capital values, would involve periodic assessment — annual or quinquennial — and would not be palatable to the peasantry. He also gave an instance to show how difficult it was to

administer sales tax. 'I dealt with a sales tax appeal case, where the total amount involved was Rs 150. I knew, however, from personal knowledge that the person who had come to me in appeal had already spent Rs 400. This is the kind of problem we run into in sales tax administration' (p 23).

Many participants felt that the scope for raising resources by taxing the agricultural sector was enormous. Yet the mechanics for doing this were not investigated in any detail. Nor was any meaningful assessment of past experience in this attempted. Some speakers thought that taxing agricultural and non-agricultural incomes separately would result in loss of revenue to the Centre as well as to the States. Combined income tax was therefore suggested as the most effective way of dealing with the new rich in the rural sector (p 24). Though there might be a constitutional hurdle here, no adequate discussion of the administrative aspect of such a step followed. A representative of one of the State governments even expressed the view that a tax on agricultural income 'touches a person who does not know rules and regulations and who is very much afraid of governmental machinery. If we are going to introduce this system of assessment, the system of levy, exemptions, and so on, we would be bringing the lawyers and pleaders into the life of villagers. This will be a fundamental mistake' (p 56). He cautioned that such a system may cause further fragmentation of holdings and division of properties.

Very few participants tried to distinguish between income and taxable income of an individual for the purpose of levying a tax on agricultural income. The exact method of determining taxable income for the tax purpose was also not touched. It was briefly mentioned, however, that the net profit which accrues to the farmer will need to be determined. Further, 'since profits in the agricultural sector fluctuate, an allowance will have to be made for it' (p 56). Agricultural tax would thus fluctuate from year to year (p 34).

Some participants pointed out, in general terms, that tax on land could be raised or even made progressive.

Nobody went into the legal and other related difficulties of doing so. Similarly, only broad references were made to the raising of water rates on irrigation but there occurred no discussion as to the feasibility of doing so. Nor was the impact of upping the rates on motivation or productivity clearly indicated.

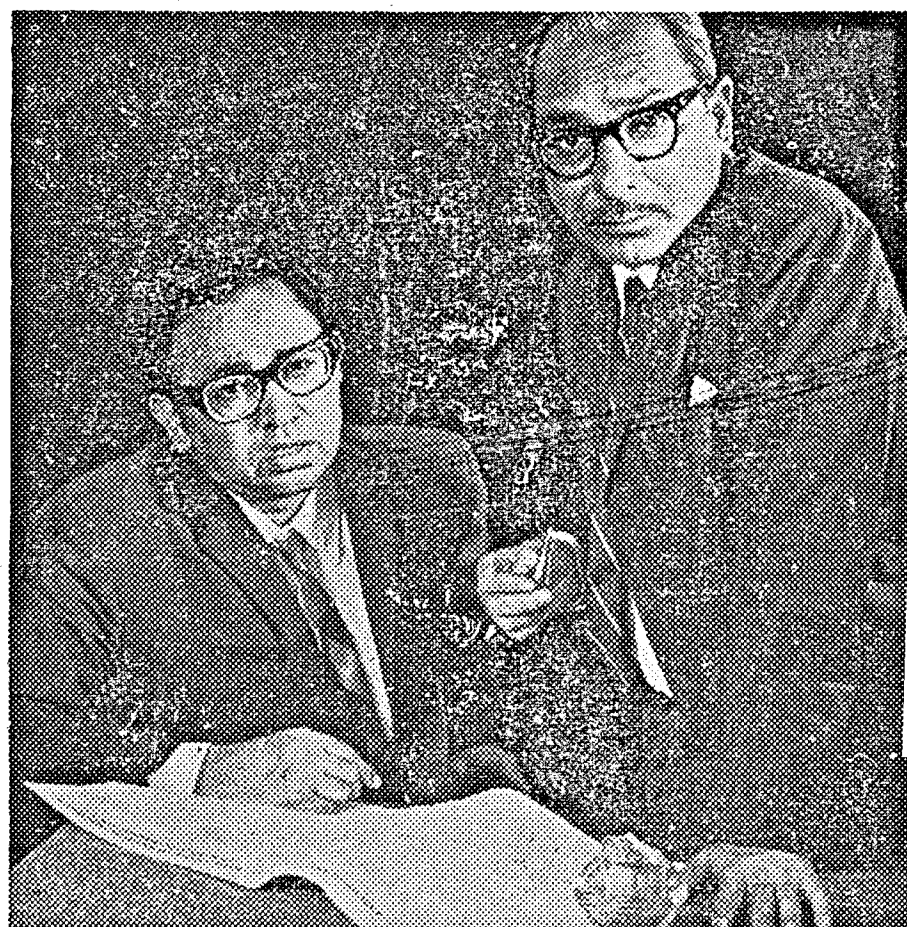
Various issues connected with Centre-State financial relations were touched on. According to some speakers, the increasing reliance of the States on the Centre for financing plan and non-plan expenditures has resulted in some unhealthy trends. The psychology of dependence weakens initiative and prudence among the States. It was also pointed out that the independent decision taken by the Centre, to adjust pay-scales and dearness allowances in response to price changes, puts a strain on the States' resources. It was suggested that a suitable machinery needs to be set up for consultations between the Centre and the States on all such matters. There were others who thought that the Finance Commissions should attempt to fix norms for expenditures to be incurred as well as for the raising of revenues — instead of relying on the revenue deficits of each State government as they have done in the past in deciding the shares of State governments in the divisible pool.

The representative from Assam pointed out that Assam and Gujarat hold common brief on the procedure followed by the Central Government in fixing the rate of royalty on crude oil (p 35). Some of the participants felt that a Special Finance Commission should be set up to go into the whole question of devolution from the Centre to the States (pp 38, 40).

In respect of debt, it was felt that 'the unfortunate thing is that the patterns of financial assistance evolved during the three Five-Year Plans and the three annual plans have laid a large burden of debt on the States, arising out of their pursuit of unremunerative schemes. In their anxiety for development, the States have taken a lot of loans without thinking of their consequences For instance, projects of administrative buildings and college buildings, costing a lakh or more, are considered as capital assets and, for those purposes, loan assistance has been admissible. It is well known that administrative buildings or college buildings do not bring in any return At present, the financial difficulties, of almost all the States are due to the

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heavy debt burden' (pp 35-36). It was also pointed out that, as a result of multipurpose projects, which were heavily capital-intensive, some of the States are finding it very difficult to repay the loans. It leaves them with practically no money for other areas of development (p 37).

Some thought that a re-scheduling of debts would be helpful. Some speakers did not see much merit in the suggestions to either re-schedule or write off debts, unless there was an agreement on the principle of charging the interest rate (pp 46-47). While others pointed out that 'a thorough study of loans taken by State governments and for servicing them and bringing them on such terms of repayments as will relieve the States of hardships' should be attempted. A view was also expressed that 'adequate resources should be transferred to the poorer States so that they may have enough elbow-room to adjust their development plans'. However, no appropriate criteria to reduce the burden of debt, or to fix the interest rate, or to separate the quantum of grants from loans or for transferring resources either on redistributive basis or for developmental purposes emerged from the discussions.

On institutional finance, some of the participants felt that more should be available for promoting activities in backward States. Quoting a paper of the Planning Commission, it was pointed out that '52 per cent of the institutional finance has been invested in six metropolitan cities' (p 43). No worthwhile discussion took place, however, on raising of resources through instruments other than taxation, though one speaker made a passing comment that rural debentures would affect the small savings campaign (p 34).

On the whole, the participants mostly covered familiar ground; the fact that resources need to be mobilised by Central and State governments for financing development programmes is by now well recognised. The real question remains, which is, how best to do it despite all the economic and practical complications involved. Taxation is only one of the instruments for raising resources. Here also, insufficient recognition was given to the fact that mere increase in tax resources, in relation to the target, is not a necessary precondition to stepping up of investment rates. In fact, during the Third Five-Year Plan, the additional tax resources raised were very much in excess of the original target. What is crucial then is not just the increase in tax revenues

but increase in saving.

Similarly, taxation of the agricultural income does not need any special pleading. What is needed is to spell out, in detail, for each State, the ways, in which taxable income may be determined, enforced, and compliance methods devised. Also important is the designing of a proper tax structure. Further, the resultant revenues for each State need to be quantified. The administrative capability, economic structure, levels of income and of development in the various States, and the pattern of income distribution within each State, would need to be taken into account in designing a proper tax structure and an appropriate tax policy.

Moreover, in designing a tax structure or policy for a State, the impact of the taxes levied by the Central Government cannot be ignored. After all, taxes whether levied by Central or State governments will have to be paid by individuals — often the same individuals. From the point of view of tax payers then, it matters little whether they pay to one or the other taxing authority. The economic impact of taxes, including their effect on exports will need to be considered in totality. Similarly, an integrated approach by different layers of governments to the task of raising resources through taxation and other instruments would prove helpful. This applies equally to the problem of transfer of resources from the Centre to the State governments. It is not merely a question of distributing a given amount among the Centre and the States but also of raising the total

of resources. The Finance Commission merely fixes the criteria for distribution; it does not create resources. Similarly, the Planning Commission.

Conferences and Seminars are very much in fashion these days. They are useful as opportunities for exchanging views on many matters of importance. While such meetings need to be encouraged, they need to be arranged with adequate preparation. Otherwise, the discussions tend to reflect only the subjective opinions of the participants. Discussions in depth become difficult. The conference, the proceedings of which this booklet records, brought together actual practitioners in the field. As such it could have provided a useful forum for thrashing out various practical and other constraints in resource mobilisation.

The exchange of views may have helped the participants to clear their own ideas about the problem facing them in their own specific field of assignment and also to acquaint them with other related issues. It would have been useful nevertheless if the various difficulties involved in raising resources had been considered in greater detail. The reports of taxation committees, appointed by several States, should have provided valuable material in this quest.

The director of the Institute, in his welcome address, had hoped that 'this conference would identify some of the constraints that operate on the resource raising capabilities of the States and suggest ways and means of removing them'. The summary of the proceedings does not indicate that the conference succeeded in doing that.

Caste and Prejudice

Sharayu Mhatre

Caste, Prejudice and the Individual by A C Paranjpe; Lalvani Publishing House, 1970; pp xvi + 236; Rs 24.

G W ALLPORT traces the roots of social psychology to the intellectual soil of the whole Western tradition and states that its present growth is characteristically an American phenomenon. This American influence is evident in A C Paranjpe's study of the interaction between the caste system and the individual. The author uses a sophisticated terminology and impressive diagrams and makes frequent references to the works of American social psychologists.

This book reports the findings of a survey of 503 college students from Poona. The students are chosen from

three castes, viz, Brahmins, Marathas and Untouchables, because historically the caste conflict in Maharashtra has been between the Brahmins and the non-Brahmins and between the Untouchables and the upper castes.

The author's main conclusions are:

(1) A majority of students do not believe in the doctrines of *Karma* and *Rebirth*. This disbelief is more common among the 'lower' castes than among the 'higher' castes.

(2) The Untouchables show a high sense of self-devaluation or self-hate. They use the highest percentage of

unfavourable terms to describe themselves.

(3) Only a negligible number of individuals think that prestige in society depends on caste.

(4) The choice of ideals and role models among young men and women is very highly influenced by caste membership.

(5) Caste consciousness seems to be equally strong among all castes.

The author has also used the Allportian model of ethnocentrism in his study. The concept of ethnocentrism refers to the twin processes of identification and contra-identification. The process of identification can be traced to an individual identifying himself with the group in which he is born and brought up. Contra-identification is the rejection of the groups which the individual perceives as aliens. The Allportian model predicts a high degree of identification with a smaller ingroup than with a more inclusive ingroup. But the author's findings show the social status of the ingroup rather than its size to be a more relevant factor in determining the degree of identification. Ethnocentrism seems to decrease with lower social status.

The focus of a social psychologist is the personality structure and the psychological processes of learning, motivation, perception, etc. But an understanding of the broader social and historical perspective is necessary for a proper understanding of the perceptions of the individual as the author himself admits (p 24). But this perspective is conspicuous by its absence in this study. This is evident in the first chapter which deals with the features of the caste system.

The author makes a distinction between the secular status and the ritual status of a caste. The secular status is based on wealth, education, occupation, and skill whereas the ritual status is based on concepts of purity and pollution. According to him, it is the ritual status of a caste which is more important in determining its position in the caste hierarchy than its secular status. To support this argument, he states: "In the traditional caste system, breach of ritual rules would call for punishment through the caste council" (p 9). In his attempt to create a dichotomy between the secular status and the ritual status, the author has missed the vital correlation between the two. The breach of ritual rules by one social group was punished not because it was harmful in itself but because it threatened the

"secular status" of some other social group. Iravati Karve (a sociologist frequently quoted by the author) points out that the ritual status and the secular status of a caste are correlated. "The caste in power tried to hold the lower castes to their lowly occupations and to their ritually impure positions" (I Karve: "Hindu Society: An Interpretation", p 78).

The author further states that the degrees of pollution resulted in a rigid and ascriptive social system. He does not give any evidence to support this statement which is, to say the least, of doubtful validity. Untouchability is described as "a special case of the concept of pollution" (p 12). From these two observations he goes on to say: "Caste, more than a principle of stratification, has been a social philosophy supporting inequality" (p 24). What he fails to see is that this social philosophy did not exist in a vacuum. It was evolved to justify the existing social system of which the caste was an important part. We will quote Iravati Karve again: "The philosophical systems developed very early in the history of this society, while truly objective, were also at the same

time such as to offer a complete justification of the most important aspects of this society" (*Ibid*, p 127).

The author's inadequate understanding of the social situation is again seen in his interpretation of the responses of the Untouchable students to his questions. "It is the feelings of inferiority, of being a third class citizen, which can be ascribed to cultural rather than economic deprivation" (p 182). This separation of cultural deprivation from economic deprivation is highly untenable.

The author concludes his study by saying "prejudice and discrimination are inextricably related to the basic problem of inequality" and "a problem of equality or inequality is certainly a problem about basic human values" (p 216), and then goes on to maintain that in a scientific study there is no place for value judgments. One wonders if it is this preoccupation with maintaining his 'objectivity' together with an inadequate understanding of the broader social and historical perspective that has led to the lopsided emphasis on 'ritual status' and 'cultural deprivation' to the neglect of more meaningful factors.

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Elite Education and the Economy

IIT Entrance: 1965-70

A D King

Previous research on the social and economic background of IIT students has primarily been concerned with issues of equal opportunity and social mobility.

This paper suggests that such socio-economic data on IIT students have relevance for other issues in science policy and manpower planning, such as the function believed to be served by the education of high-level technical manpower, industrial policy and location, problems of brain drain in science and technology and regional disparities in industrial growth rates.

The analysis of the data has also relevance for educational policy-making at the Institutes of Technology.

[The author is grateful to V K Jolly for his assistance in computing the statistics.]

IT is almost twenty years since the first Indian Institute of Technology was founded at Kharagpur in 1951 and almost ten since the youngest began at Delhi in 1961. In approximately two and a half decades of educational expansion since Independence, the five IITs represent one of the most significant as well as one of the most expensive innovations in higher education in the country. In each of the major cities where they are located, their impressive campuses and often dominating skylines have a 'demonstration effect' function: they bear witness to the nation's commitment to science and technology and provide visitors, both indigenous and foreign, with an instant impression of progress and development.

In the overall educational context, they can justifiably be called elite establishments. Though their portals are open to all, entrance is strictly competitive. Each year about 230 undergraduate students enter each of the spacious campuses with their first-class facilities: air-conditioned library, excellent laboratories and classrooms, sports facilities, swimming pool, cultural and recreational opportunities, well-organised educational programmes, and residential accommodation ('fans in every room', as one student pointed out). Costs per undergraduate student are about Rs 4,200 per annum and the overall staff : student ratio, for both under- and post-graduate students, 1:6.1 In 1968-69, the recurring expenditure on all the IITs, with just over 10,000 students, was Rs 671 lakhs.² They are said to attract some of the best student talent in the country and staff recruitment is equally competitive. Each has, or has had, technical assistance, equipment

and opportunities for faculty exchange with either the USA, USSR, UK, or West Germany. The great majority of staff, both academic and administrative, have residential accommodation on the campuses at a rent representing 10 per cent of their salary. Of something less than 20,000 engineering graduates being turned out each year, the IITs produce approximately 7 per cent.

From their initial task of producing first quality engineering graduates, the IITs have increasingly turned to post-graduate work and research in science and engineering. They are increasingly concerned with establishing links with industry, promoting consultancy and, more recently, with a programme of quality improvement in technical education throughout the country. Dubbed as 'centres of excellence', they are charged with establishing and maintaining international standards in their own fields of activity.

It is therefore all the more surprising that so little published research is available on the staff or student composition of these elite institutes and their functioning both within the economic system and the broader processes of modernisation. Apart from the work of the Institute of Applied Manpower Research³ little else exists. The function of this as well as the subsequent paper [to be published in a later issue — *Ed*] is, therefore, to attempt a remedy of this situation in two ways: to expand on earlier findings concerning student recruitment to the IITs and, more particularly, to raise certain problems deserving further research. The second paper deals with a preliminary study of the expectations, aspirations and ambitions of the student engineer.

II

In two of the more recent and available studies,⁴ the main concern has been with student recruitment to these major institutions and the opportunity which they provide for social mobility. While this concern for egalitarianism is both justified and praiseworthy, this type of study has ignored other matters of fundamental importance affected by the social and economic background of the students. Some of these matters can be described as

the present and future purpose of educating technical manpower for high-level roles; industrial policy and the setting up of new industries; regional disparities in industrial growth rates; problems of brain drain in science and engineering; and, questions of student motivation, attitudes to learning and the planning of educational policy within the IITs.

In brief, it is suggested that, in probing such issues as the social and economic origin of students, it might be equally profitable to use frameworks provided by the sociology of science or manpower research as those provided by studies in social mobility and the general context of social change.

This paper reports a preliminary investigation into these issues and attempts to provide insights into some of the following questions:

(1) Has there been any noticeable change in the social and economic background of students entering the IITs in the last five years? In what way, if at all, has the social composition of the student body been affected by the perceived decline in employment opportu-

TABLE 1: NUMBER OF CANDIDATES SITTING FOR THE JOINT ENTRANCE EXAMINATION FOR THE INDIAN INSTITUTES OF TECHNOLOGY, 1963-1970

Year	Number of Candidates at Each of the Five Examination Centres					Total
	Bombay	Delhi	Kanpur	Kharagpur	Madras	
1963	3,228	3,726	5,239	3,621	2,225	17,995
1964	N/A	N/A	N/A	N/A	N/A	16,276
1965	3,261	5,354	5,364	4,809	3,340	22,128
1966	5,922	7,587	8,289	8,703	4,715	35,216
1967	N/A	N/A	N/A	N/A	N/A	28,559
1968	N/A	N/A	N/A	N/A	N/A	19,712
1969	N/A	2,818	N/A	N/A	N/A	12,771
1970	3,365	2,394	2,278	2,309	2,295	12,641

Figures from the Agenda of the Annual Meetings of the IIT Council, Ministry of Education.

N/A = Not available

nities in engineering? What relevance, if any, does the social origin of students have in determining future career opportunities following graduation?

(2) Has there been any noticeable change in the regional representation of students recruited to the IITs? Apart from questions of social and political importance, what relevance does the regional origin of students have for problems of industrial development?

(3) Are there noticeable social and economic differences between groups of students placed in different engineering disciplines on entry? Does the system of the Joint Entrance Examination by which students gain entry to the IITs, and the allocation to engineering disciplines, ostensibly according to intellectual merit, induce situations where students are 'streamed' according to social class origin? If such streaming could be identified, how far does it affect the stated educational policy of the institute or in any way affect the academic progress of the student? How far would such streaming, if any, affect both the image and reality of any particular engineering profession?

(4) Are there identifiable characteristics of students entering the IIT which might prove viable indicators, not only for academic success but also, for taking up particular engineering roles which manpower planners would see as essential for the economy?

(5) Is the IIT student's inclination to work in production, research, small-scale enterprise, management, or to 'go down the brain drain' significantly related to his social or economic background?

(6) How far are attitudes to studies and academic success, as measured by examination results, affected by such factors as social, educational and economic background, medium of instruction in school, and especially in the final years of the five-year course, perceived job opportunities and related factors?

(7) Given the fact that a very large proportion of the student body originates from the immediate urban area in which a particular IIT is located, is the knowledge of educational opportunity provided by the IIT equally distributed socially, economically and geographically within the Institute's immediate urban region? Given the present constraints, does the IIT get the best raw material for its purpose, even within this urban region?

(8) How far is success in the Joint Entrance Examination (JEE) determined by school background and how far is opportunity to attend the 'successful' schools determined by patterns of residence, and even transport possibilities, irrespective of such factors as income?

METHODS AND SOURCE OF DATA

Data for the study were taken from the 214 application forms of 215 students who gained entry to one IIT in 1969. Data given on these forms includes

the address of applicant; the State to which he belongs; his choice of engineering course and the institution in order of preference; details of basic examination such as Matric and school from which taken; place of birth of candidate indicating village/town/city; income of parent per month; details of qualifying examination passed and name of school/college and location from where passed; medium of instruction at school of basic examination; whether candidate is a member of a scheduled caste, (for details of parental income of students in 1968, 182 available application forms of the 202 students entering in that year were consulted. Foreign students were excluded from the analysis).

III

As will be seen from Table 1, there has been very considerable fluctuation in the numbers sitting for the JEE over the last eight years, ranging from approximately 18,000 in 1963 to 35,200 in 1966 to 12,600 in 1970, the latter number being just over one-third of the number sitting when the demand for entry was at its highest in 1966.

Although there may be other explanations for this phenomenal fall in the number of candidates, it would be difficult to ignore the most obvious one, namely, the dissemination of knowledge regarding the increasing unemployment among engineering diploma-holders and graduates. In 1967, a figure of 40,000 "unemployed engineers" was being quoted in the Press. In June 1969 an official figure of about 50,000 was given. Later in 1969, this had risen to 70,000 and the Minister of Education himself has predicted a surplus of 100,000 by 1972 unless present trends of education and industry change.⁵

Moreover, if the situation at one of the five examination centres is examined, it is noticeable that, in addition to there being a large absolute fall in the number of candidates, the relative fall is in fact much greater. In Delhi, for example, only 2,818 candidates sat for the examination in 1969 compared to 7,587 in 1966. Yet for various reasons over 39,000 students were registered for the Higher Secondary examination in Delhi in 1969 compared to approximately 28,000 in 1968. Amongst these 39,000, 11,203 were in the Science Group and were therefore theoretically eligible to sit for the Joint Entrance Examination.⁶

These figures prompt certain obvious questions. If over 7,500 Delhi students sat for the Joint Entrance Examination in 1966 and less than 2,500 in 1970, assuming that the number eligible has remained reasonably constant (or even increased) who are the 5,000 who now no longer apply? From what schools did they come, from what parts of the country, from what social and economic background? Moreover, where are these 5,000 now going, what courses are they taking up? Put in another fashion, which students from which place and of what social/educational/economic background have been increasingly inhibited from sitting for the examination, probably as a result of their perceiving a mounting increase in the numbers of unemployed engineers?

It has been suggested that the number of applications has now 'settled down' to a realistic figure. But for whom has this number 'settled down'? Clearly, the IITs still provide, mainly at public expense, one of the best educations in the country; entrance is theoretically open to all who are qualified.

In the general critical state of unemployment, an IIT graduate has still far better opportunities of employment than his counterparts from other institutions. One major obstacle, of course, is the sum of a minimum Rs 12,000 which, failing scholarship assistance, would have to be found over five years to finance the student at the Institute; this is not counting possible earnings foregone. However, scholarships can be applied for even though they are available to only 25 per cent of the students.

TABLE 2: PARENTAL INCOME OF STUDENTS ENTERING AN IIT, 1966-1970 (Percentages)

Sl No	Income of Parent Per Month (Rs)	All Students Entering the Five IITs in 1965*	Students Entering IIT in			
			1966†	1968	1969	1970
(1)	0 — 150	6.9				
(2)	151 — 200		5.1	6	6	2
(3)	201 — 250	13.8				
(4)	251 — 300		34.2	14	13	18
(5)	301 — 500	20.6				
(6)	501 and above	58.7	48.5	62	67	80
(7)	501 — 700			19	10	14
(8)	501 — 750		16			
(9)	701 — 1000			13	14	15
(10)	751 — 1000	11.4				
(11)	1001 and above	21.1	30	43	49	
(12)	1001 — 2000	17.3	22	36	33	
(13)	1001 — 1600		16	27	28	
(14)	1601 — 2000		6	9	6	
(15)	2001 and above	3.8	8	7	16	
(16)	3001 and above		2	3	6	
(17)	No response and foreign students		18	14	1	
(18)	Total number of students in sample	2,574	237	182	214	235**
(19)	Percentage of total number of students admitted		86.5	90††	99.8††	95††

* Report of the Education Commission, Government of India, 1966, p 119.

† Rajagopalan, C and Singh, J "The Indian Institutes of Technology: Do They Contribute to Social Mobility?" *Economic and Political Weekly*, April 6, 1968.

** From the available application forms of students admitted, though not necessarily permanently joined, in July 1970. This represents a 95 per cent (235/247) sample of those likely to join in the 1970-71 session. Seats will eventually be limited to 225.

†† Percentages have been rounded to nearest whole number for 1968-70.

IV

Parental Income

One hypothesis needing examination is the following:

In the early and mid-1960s, engineering was seen as one of the major professions where chances of employment, in an overall situation of extensive unemployment, were still high. Consequently, students from a wide range of economic backgrounds sought admission to professional courses in engineering, including the IIT.

With the knowledge of engineering unemployment becoming increasingly widespread, those students from lower income groups particularly now no longer see a solution to employment problems in terms of engineering and, in view of the costs of IIT education, now take to other courses where their chances of employment are as good, or bad, as those of engineers. Only those students whose long-term prospects of employment are reasonably good (either because of family connections or family financial circumstances) continue to seek entry to the IIT. Moreover, if employment opportunities are not available on graduation, the financial circumstances of such students would permit them either to continue post-graduate training in India or abroad, or at least, remain unemployed without severe

hardships to themselves or their family.

An examination of the parental income of entrants to one IIT between 1966 and 1970 indicates a significant increase in the number of students coming from families where parental income is more than Rs 500 (Table 2).

The general trend in students' stated parental incomes can be described as follows:

- (1) The proportion of students from income groups of Rs 250 and below, having remained fairly steady at about 5 to 6 per cent between 1966 and 1969, has declined to 2 per cent in 1970.
- (2) For students in income groups of Rs 251 to Rs 500, after an initial fall in the proportion between 1966 and 1968, from 34 to 14 per cent, the number has remained reasonably steady at about 14 to 18 per cent. In the last three years, about 20 per cent of students have come from families where the stated income is Rs 500 and below.
- (3) There has been a progressive increase in the proportion of students coming from income groups of Rs 500 and above. Though the proportion in the Rs 501 to Rs 1,000 category has remained fairly steady during the four years examined (27 per cent, 32 per cent, 24 per cent, 29 per cent) the proportion in the Rs 1,001 and above category

has steadily increased from at least 30 per cent in 1968 to at least 43 per cent in 1969, and to at least 49 per cent in 1970.

- (4) In this Rs 1,001 to 2,000 category, the main increase has been in the proportion of students coming from income groups of from Rs 1,001 to Rs 1,600. Between 1968 and 1970, this proportion increased from at least 16 per cent to at least 28 per cent. The proportion in the Rs 1,601 to Rs 2,000 group remained fairly constant between 5 per cent and 9 per cent.
- (5) The proportion of students in the category of Rs 2,000 and above has increased steadily between 1966 and 1970 from at least 4 per cent to approximately 16 per cent. Of these, at least 2 per cent were from parental incomes of Rs 3,000 and above in 1966 and approximately 6 per cent in 1970.
- (6) Whereas the variation in incomes in 1966 was between Rs 100 and Rs 6,000 (Rajagopalan and Singh, 1968), it was between Rs 150 and Rs 10,500 in 1970.

Two conclusions could be drawn from these figures. Either the average parental income of students from urban areas and especially from the city in which the IIT is located, which contributes a large proportion of IIT entrants, has considerably increased or,

TABLE 3: PARENTAL INCOME OF STUDENTS SHOWN ACCORDING TO ENGINEERING DISCIPLINE SECURED, 1969

	(Percentages)					
	Mech N=47	Elec N=51	Chem N=52	Civil N=35	Textile N=29	Total for All Disciplines N=214
(1) Rs 250 and below	2.1	7.9	5.8	5.7	6.9	5.6
(2) Rs 500 and below	14.9	17.7	17.3	22.9	27.4	19.1
(3) Rs 501 and above	74.5	64.7	73.1	65.8	47.5	66.9
(4) Rs 501-1000	25.5	19.6	21.1	34.3	24.0	24.3
(5) Rs 1000 and below	40.4	37.3	38.4	57.2	51.4	43.4
(6) Rs 1001 and above	49.0	45.1	52.0	31.5	23.5	42.6
(7) Rs 1001-2000	40.5	39.2	44.3	22.9	20.5	35.6
(8) Rs 2000 and above	8.5	5.9	7.7	8.6	3.0	7.0
(9) No response/foreign students	10.7	17.7	9.6	11.4	24.2	14.0

Alternatively, recruitment of entrants is increasingly coming from higher income families. Though both of these explanations may be valid, it is suggested that the hypothesis suggested above would seem to be at least partially supported by this evidence.

It should be noted that average national monthly per capita income for 1968 is 45; average monthly earnings in the city where the IIT is located, approximately Rs 180.

Some of the implications of this situation are discussed at the end of the paper.

V Income Disparity between Engineering Disciplines

Successful entrants to an IIT are placed in one of the engineering disciplines (mechanical, electrical, chemical, aeronautical, civil, textile, etc) partly as a result of their stated preferences, but more particularly, as a result of their order on the merit list indicating their performance in the JEE. On their application form, candidates are asked to indicate their choice of engineering course and institute in order of preference. In allocating places to successful students, first choice of discipline and institute is given to those at the top of the list and so on until the most preferred disciplines and institutes are filled. Students at the tail end of the merit list in general are allocated to the least preferred disciplines in the least preferred institutes.

If parental income and educational background possibly affect the number of students sitting for the JEE and also their performance in this examination, it can equally be suggested that these factors also affect the placing of students in various disciplines when the allocation to these disciplines takes place in the number described above. Table 3 indicates the parental income of students shown according to engineering

discipline secured on entry.

In 1969, as will be shown below, mechanical, electrical and chemical engineering were by far the most popular choices of engineering course and civil and textile engineering by far the least popular choice, preferences mainly determined by the students' and parents' perception of the future of the particular engineering industry, its general prestige rating and image, and the existing unemployment situation in that profession. Table 3 indicates that approximately 90 per cent of mechanical, chemical and civil engineers indicated their parental income, thereby making their responses reasonably comparable. Whereas 73.1 per cent of chemical and 74.5 per cent of mechanical engineers had parental incomes of Rs 501 and above, only 65.8 per cent of the civil engineers were in this category. Although over 24 per cent of textile engineers did not indicate their income, only 47.5 per cent indicated that their parents earned more than Rs 500. The difference is more obvious at incomes of Rs 1,001 and above; 52 per cent of chemical and 49 per cent of mechanical engineers had parents in this income category compared to 31.5 per cent of civil and (remembering the lower response rate) 23.5 per cent of textile engineers.

In 1970 electrical engineering was by far the most popular choice for aspiring IIT entrants. Presumably they see the electrical industry as having the

TABLE 3A: PARENTAL INCOME OF STUDENTS ACCORDING TO ENGINEERING DISCIPLINES, 1970

	(1) Total N=235	(2) Elec N=40	(3) Civil N=57
(1) Rs 500 and below	20	15	33
(2) Rs 501 and above	80	85	67
(3) Rs 1,000 and below	50	42	60
(4) Rs 1,001 and above	49	58	40
(5) 2,001 and above	16	20	14
(6) Rs 3,001 and above	6	12	7
(7) No response	1		

brightest future in India and for other reasons (including a mysterious prestige), the heaviest demand was for this discipline. Civil engineering, on the other hand, was in least demand, one of the main if not the only reason for this being the large body of unemployed graduates currently in this field. Table 3A indicates that, at all income levels, students from more affluent incomes were able to secure the most preferred and, in their general view, the more promising discipline whilst students from the least affluent backgrounds secured only the least preferred discipline.

Although it is difficult to classify as private, public, aided or semi-public the large number of schools stated by entrants on their applications some comment on students' educational background is made later in the paper. At this stage, however, it is relevant to quote that an earlier study of a class graduating from this particular IIT in 1968 indicated that the percentage of so-called 'public school' students was much higher in the mechanical and electrical disciplines than in the civil. This study noted that "the percentage of students from Government schools was much less among mechanical engineering respondents (21 per cent) than civil engineering students (50 per cent). As far as medium of instruction was concerned, 66 per cent of electrical, 54 per cent of mechanical, 40 per cent of chemical and 25 per cent of civil students had had English as the sole medium of instruction in the five years prior to joining the IIT".

The relative deprivation evident in these differences in economic, educational and linguistic background between, for example, mechanical and civil engineering students would clearly have significant educational implications, irrespective of any real, measured or perceived difference in the intellectual capacities of these two groups theoretically established by the JEE. Although it would be difficult to generalise without further evidence, it is probable that the entire range of English vocabulary would be more re-

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stricted in the lower income groups, their educational and social experience in this language more limited, their universe of discourse more restricted and network of English-speaking social relationships less extensive. Thus, in terms of linguistic capacity, conceptual awareness, sensitivity to ideas and phenomena, and general 'educational exposure' resulting from individual and family experience, the economic and social background of students would make very significant differences irrespective of innate intellectual capacity. Nor does this analysis refer to the varying physical and environmental conditions of residence from which students come which would clearly affect both their capacity to study as well as their general physical and mental health and well-being.

As an integral part of their course, all students spend some 15 per cent of their first year on courses in the humanities. Apart from broadening the students' general awareness, first year courses have the express object of improving his communication skills at the written, oral and comprehension level in the English language, the medium of instruction for all studies at the Institutes of Technology. These first year courses, though somewhat different at each IIT, are largely devoted to English usage and communication and various approaches to literature and other humanistic studies in English though not necessarily to English literature.

At the location of this particular research, over the last few years, it has been continuously observed that while students in some engineering disciplines constantly achieve high results in these English-language based courses, students in others constantly achieve poor results. As an example of this, one examination result may be quoted. Whereas over 50 per cent of the mechanical and electrical engineering class

obtained a 'good' or a 'very good' (over 60 per cent) score in the English-language based humanities courses only 26 per cent of the civil and 32 per cent of the textile engineering class did so. On the other hand, 45 per cent of civil and 45 per cent of textile engineers obtained a 'poor or very poor' (49 per cent and below) score compared to only 17 per cent of mechanical and 20 per cent of electrical engineers; 16 per cent of civil engineering students failed this first year examination compared to 2 per cent each of mechanical and electrical students. This particular result is typical of what has happened continuously under the existing system of entry.

While it would be agreed that these results may partly represent the obvious point that 'intellectually' (whatever this word may mean) civil engineering students are, according to the criteria of the JEE, 'less able' than other groups, it is difficult to believe that competence in English language and especially performance in language and literature courses in English is not as much a result of economic and social factors as of intellectual ones. Moreover, in view of the fact that the medium of instruction and examination is also English, performance in all disciplines especially in the first few semesters of the course, is likely to be affected by the 'relative deprivation' suffered prior to coming to the IIT. Moreover, acquaintance with concepts and ideas and their utilisation in courses which largely make use of non-mathematical, non-quantitative languages, such as, for example, those in the humanities and social sciences, as well as others would seem to be very much dependent on students' economic, social and previous educational experience.

There are a number of implications which result from these data, only one of which will be mentioned at this point. The streaming of students into

various engineering disciplines, ostensibly according to intellectual attainment as measured in the JEE, but effectively, also according to educational and social class origin would seem to have very adverse effects, reinforcing both the deprivations of the economically less privileged as well as the advantages of the more privileged.

VI

'Popularity Rating' between Disciplines

Table 4 indicates the 'popularity' of various engineering disciplines as perceived at the time of application by the students and expressed in terms of their preferred choices. Though all were admitted to the IIT, only some were successful in obtaining their preferred discipline.

It will be seen that, if first and second choices are combined, electrical engineering and mechanical engineering were in 1969 almost equally popular disciplines with chemical engineering a close third. Each of these was mentioned over 85 times either as first or second choice. In first and second choices, textile engineering, however, came a very poor sixth with only 7 choices and civil engineering seventh, being mentioned as first choice by only 2 students and second choice by 2 more. Thus, hardly 2 per cent of students joining the IIT were keen on becoming civil engineers.

If first, second, third and fourth choices are combined, mechanical engineering is seen to be the most popular (171) with chemical and electrical engineering drawing roughly the same number of choices (158, 155); textile engineering drew 31 and civil 27 total responses out of 856 possible choices exercised by the 214 students.

It should be noted that these figures do not express the true overall 'popularity picture' which would, of course,

TABLE 4: POPULARITY RATING OF VARIOUS ENGINEERING DISCIPLINES, 1969 — NUMBER OF 1ST, 2ND, 3RD AND 4TH CHOICES GIVEN TO VARIOUS DISCIPLINES

	Number of Choices												
	Total*	Mech	Elec	Electr	Chem	Civ	Text	Aero	Met	Arch	Agr	N	M
1st Choice	214	52	38	48	50	2	1	17	2	1	0	0	0
2nd Choice	214	45	61	27	35	2	6	26	2	3	1	2	0
1st and 2nd Combined		97	99	72	85	4	7	43	4	4	1	2	0
3rd Choice	214	40	34	25	46	10	8	24	7	2	2	3	1
4th Choice	214	34	23	10	27	13	16	38	8	1	5	4	1
Total		171	155	107	158	27	31	105	19	7	8	9	2
Rank order (on basis of 4 choices)		1	3	4	2	7	6	5	8	11	10	9	12

* The total of 214 is made up of number of choices expressed. Choices expressed by foreign student entrants are not indicated. Though all students indicated a first choice, not all indicated 2nd, 3rd or 4th choices.

Abbreviations are for mechanical, electrical, electronics, chemical, civil, textile, aeronautical, metallurgical, architecture, agriculture, naval architecture and mining.

TABLE 5: PLACEMENT SATISFACTION—CONGRUENCE BETWEEN EXPRESSED CHOICE AND FINAL PLACEMENT OF STUDENT IN AN ENGINEERING DISCIPLINE, 1969

	Electrical or Electronic Engineering	Mechanical Engg	Chemical Engg	Textile Engg	Civil Engg
(1) Percentage of students expressing as 1st or 2nd choice the engineering discipline in which they were placed (i.e., according to their position on the JEE merit list and their stated preference)	100	78	73	13.7	5.7
(2) Percentage of students expressing as 1st, 2nd, 3rd or 4th choice the engineering discipline in which they were placed	100	98	94	27.6	20

only be obtained by analysing the application forms of all applicants, including those who failed to obtain a seat. The above figures do, however, indicate the popularity of the disciplines of the students who gained admission to this particular IIT in 1969.

'PLACEMENT SATISFACTION'

Table 5 indicates the congruence between expressed choice and final placement in engineering disciplines. It will be seen that whereas all 100 per cent of students placed in electrical engineering (consistently, with mechanical engineering, the most popular, prestigious and sought-after discipline in the last few years) had expressed either electrical engineering or electronic engineering as their first or second choice, only 5.7 per cent of civil engineering students had indicated that discipline as their first or second choice. A high level of 'placement satisfaction' of over 73 per cent is shown for mechanical and chemical engineers but a low one (13.8 per cent) for textile engineers.

Likewise, if all four choices are taken into account, 100 per cent of electrical and over 94 per cent of both mechanical and chemical engineers had indicated their own discipline as one of the four choices expressed whereas only 27.6 per cent of textile and 20 per cent of civil engineers had mentioned these disciplines as the ones they actually wished to join.

Although too much should not be drawn from these facts, one hypothesis would certainly need further examination:

Students (such as those in electrical or mechanical engineering) who are placed in the discipline of their first or second choice obviously enter the institute in a happy — one might add, enthusiastic — frame of mind. Not only have they done well in the JEE but they are now going to study a subject which they have all opted for, some of

them because they are genuinely interested, others because the job opportunities in that discipline appear to be much better than in other disciplines and because their branch of engineering would seem to have an exciting future. The general 'employment climate' regarding the prospects for their future discipline is good and, therefore, the interest they show in their work probably quite positive. Additionally, it is likely that, compared with textile and civil engineering students, they would come from families with higher incomes and consequently, possibly more secure and economically stable environments.

For the civil engineering students, however, the story is quite different. Initially, not only have they done less well than the others in the engineering examination and therefore lack the psychological booster enjoyed by their other colleagues but in addition, 95 per cent of them had never wished to study civil engineering in the first place. Only 20 per cent had thought of civil engineering even as one possible choice among four others. Compared to other students, as a class, they are from less economically privileged homes and, in all likelihood, have had less education in English-medium schools and have not had the more 'liberal' curriculum which is usually associated with the so-called public school and the opportunity of living in a home environment where a broader range of educational and other experience has probably been possible. Of more importance, for the last few years and possibly for the next few, they enter the IIT when, both inside and outside the institute, there is a climate of extensive unemployment in civil engineering and an atmosphere of subdued pessimism and concern regarding the prospects in this profession.

Irrespective of any innate intellectual or other differences between the students of the various disciplines, it is clear that the general 'learning and

teaching climate' is likely to be very different between them. It is also well recognised within the IIT, and especially in the first two years, that disciplines are rapidly 'labelled' and attitudes struck which significantly affect both the learning and teaching situation, inducing the acceptance of a certain 'image' of each discipline, both by teachers as well as by the students themselves.

INSTITUTE SATISFACTION

Table 6 indicates that the degree of 'institution satisfaction' obtained between disciplines is not too dissimilar except that only 43 per cent of textile students had indicated the particular IIT which they joined as first or second choice. What does appear from these figures is that the preference for a particular discipline is not overwhelmingly more important than the preference to be at one particular Institute of Technology, in this case, the one which they joined. It will be seen that 40 per cent of both mechanical and chemical engineers very strongly wished to join that IIT where they eventually came. Students obtaining the highest overall degree of 'institute satisfaction' would appear to be the mechanical and electrical engineers, 66 per cent having expressed the IIT actually joined as first or second choice and 40 per cent expressing it three times out of four possible choices. The lowest degree of 'institute satisfaction' is indicated by the textile students, only 43 per cent of whom expressed the IIT actually joined as first or second choice and 34 per cent expressing it at least three out of four possible choices. This again could possibly be used as general index of satisfaction among institute students.

Can anything more be interpreted from this data? Some questions at least can be asked. What difference in motivation towards engineering in general, and a particular engineering discipline

TABLE 6: 'INSTITUTE SATISFACTION'—PERCENTAGE OF STUDENTS INDICATING PREFERENCE FOR IIT WHICH THEY JOINED

Discipline	JOINED (Percentage)	
	IIT Joined Expressed as 1st or 2nd Choice	IIT Joined Mentioned 3 out of 4, or 4 out of 4 times
(1) Mechanical	66	40
(2) Electrical	66	36
(3) Chemical	52	40
(4) Civil	62	31
(5) Textile	43	34

in particular, can be deduced between two students expressing the following choice behaviour?

Student A	
Preferred Discipline	Preferred Institute
(1) Electrical Engg	Kanpur
(2) Electrical Engg	Delhi
(3) Electrical Engg	Bombay
(4) Electrical Engg	Kharagpur
(5) Electrical Engg	Madras
Student B	
Preferred Discipline	Preferred Institute
(1) Electrical Engg	Delhi
(2) Mechanical Engg	Delhi
(3) Chemical Engg	Delhi
(4) Textile Engg	Delhi
(5) Civil Engg	Delhi

Does the comparatively high percentage (40 per cent) of students expressing a strong wish to stay in one particular IIT at the expense of obtaining any discipline there have any larger significance as an index of potential mobility? Of all students, approximately 36 per cent put greater importance on remaining in one particular IIT than in taking up any one particular discipline.

VII

State of Origin and Residence

In view of the ambiguity implicit in responses to questions asking for the 'State to which the applicant belongs' it is difficult to interpret the data in Table 7. However, it would not seem that any significant changes have taken place in the geographical origin of students over the three years if addresses given indicate present residential location.⁷ Numbers coming from the City area have remained about the same at 60 to 65 per cent. The number coming from three adjacent States seems to have declined at the expense of others coming from 'the rest of northern India'. However, this classification is misleading as entry in 1969 included approximately 16 per cent who had mainly been born, and currently live, in the City of Bombay and its environs.

One hypothesis, however, does need examination as the following figures illustrate. Although the IITs are theoretically 'all India' institutes, it has become increasingly recognised that in effect they cater to their various regions. It would, therefore, be expected that the particular IIT in question would cater mainly to its City area and the surrounding States. Yet compared to a maximum of 26.1 per cent who belong to these surrounding States, as many as 16 per cent are now from Bombay and its surrounding area. UP, for example, India's largest State with well over 85 million inhabitants, contributed

TABLE 7: STATE OF ORIGIN AND RESIDENCE OF STUDENTS

State of Origin	(1) 1966 Intake	(2) State to Which Applicant Belongs	(3) 1969 Intake Address in June 1969
The city*	65	43	63
Three adjacent States	22	26	12
Rest of Northern India	8	24	24
Southern India	5	7	1

* The city in which the Institute is located. This is referred to in the text as the 'City area'.

only 11 per cent of students if column (2) of Table 7 is taken as the index of origin and only approximately 7 per cent of students if the address given on the application form is taken as the local origin of students. Thus, Bombay, with its population of over 4 million contributed more students to the IIT than UP with a population 20 times as large.

Similar trends have been noticed at least one other IIT. It has been suggested that in the last two years at this other IIT, local recruitment from the immediate IIT region has been declining at the expense of Bombay applicants whose increasing success in scoring high places in the merit list enables them to command places not only at the Bombay IIT but also at the other IITs.

One of the accepted policies of these new institutes was, and is, to link up the institute with its surrounding region, stimulating educational reform and assisting local industry to develop. It would seem that this aim is becoming increasingly thwarted: students from the large, educationally well-endowed metropolitan centres such as Bombay, having benefited from the better language and educational facilities of that city, are increasingly obtaining places at the other IITs. If, as is not unlikely, because of family, social, regional or language reasons, graduates return to their own metropolitan origins, this will ultimately benefit the Bombay region at the expense of the areas where other IITs are located, continually contributing to regional disparities in economic growth.

It is also worth examining whether the decline in English teaching in state schools either in the adjoining States or in the City where the IIT is located would result in decreasing numbers coming from these schools and increasing numbers coming from private, fee-paying schools where English is the medium of instruction. In this context it is significant that of the 174 out of 213 students who indicated their medium of

instruction in high school, 145 stated it as English, 12 as Marathi, 12 as Hindi, 3 as Gujarati and 2 as Sindhi.

No students stated that they belonged to scheduled castes or tribes.

STUDENTS FROM THE CITY

Sixty-two per cent of all students gave a local address (i.e., in the City) on their application form; 32 per cent had been born in the City. Though this does not necessarily mean that this correctly indicates their permanent place of residence it is assumed that, in most cases, students do actually live there and if not, their relatives or friends with whom the students were currently staying are at this address.

Some interesting facts are revealed by an investigation into the residential patterns of IIT students from the City. In the first place, if these are correlated with other data, where they are known, concerning occupations, caste, regional origin, some insights would be possible into the social ecology of the city. More particularly, on the basis of the information given in the application forms about residence and schools attended, further insights might be had into the success of any particular school or schools of the City in sending students to the IIT.

Only some of this data has been analysed here. One hundred and twenty-nine students (62 per cent) state a City address on their application forms. The largest single number of these (well over 30 per cent) come from neighbourhoods within 3½ miles of the institute; about 15 per cent from two large government colonies immediately adjoining the institute, and within roughly one mile of it, and about 11 per cent from better class residential neighbourhoods, 3 to 4 miles away. A further 30 per cent come from two postal areas about 8 miles away, largely characterised by small and medium-sized business families, about 15 per cent of whom live in the old part of the City. The remaining 40 per cent are drawn from locations

scattered fairly randomly round the City area. However, it should also be noted that large parts of the City area are very sparsely represented in the student population and some dense concentrations of population, at a distance from the institute, are hardly represented at all.

These figures, incomplete as they are, would seem to confirm Rajagopalan and Singh's earlier study [1968] in some respects. This study found that the fathers of the largest number of students were from clerical and related (probably government) posts. The next largest category were from higher administrative positions and the third largest, from business. These findings would seem to coincide with what is generally known about the residential patterns of the districts mentioned.

Though these facts are probably obvious, certain questions must, however, be raised. What accounts for the large number of students coming from areas immediately adjacent to the IIT? Is this due to the superiority of the schools in this area? Or is a much more simple-minded explanation valid, namely, that *proximity* is the major influence — parents and children see the huge dominating skyline out of their bedroom windows every morning and as they wait, hour upon hour, for the local bus? Thus, knowing about the institute, they make efforts to go there. The preponderance of students coming from within three or four miles of the institute would suggest that there is enough in this suggestion for it to need further examination.

If most of the local students come from within eight miles of the institute, they are also mainly from the south of the City. Where are those from the northwest, the densely-populated north and the rapidly expanding east? Is the absence of representation from these farther flung areas in any way connected to the geographical distribution of knowledge about the IIT, to the urban transport system, to the available educational opportunities irrespective of parental occupation and income?

In view of the seemingly geographically restricted entry to the IIT from its immediate City area is the institute sure that it is getting, within other known limitations, the best possible raw material available in the local market?

VIII

Summary and Conclusions

The study has suggested that, as the number of students sitting for the IIT entrance examination has decreased, the

average parental income of the successful candidates has increased. A considerable amount of self-rejection of local and other students accounts for the lower numbers sitting for the examination. Incomewise, approximately 80 per cent of the 1970 entrants were from incomes of Rs 500 and above and approximately 49 per cent from parental incomes of Rs 1,001 and above. As a result of the present system of allocating entrants to various engineering disciplines, the most preferred engineering disciplines of mechanical, electrical and chemical engineering generally contain students from higher parental income groups and the least preferred disciplines (textile and civil engineering) contain students from lower income groups. It is probable that students in the least preferred disciplines are less likely to have had their previous education solely in English medium schools and also, that these students are less likely to have attended 'public schools' than those students in the most preferred disciplines. It is suggested that the relative deprivation evident with regard to economic, linguistic and possibly social background, irrespective of any real or imagined difference in intellectual capacity, places students in the less preferred disciplines at an educational disadvantage on entering the IIT. The disadvantage is possibly measured in the examination results.

In 1969, for students entering the IIT, mechanical and electrical engineering were the most preferred disciplines with chemical engineering coming very closely behind. In 1970, electrical engineering was the most preferred. Textile and civil engineering, however, in addition to being the least preferred were also, it should be added, hardly mentioned as genuine choices by the large majority of students. There is a very high degree of congruence between expressed choice and final placement in discipline in the most preferred disciplines and an equally low degree of congruence between these two aspects in the least preferred disciplines.

On the basis of these facts, it is suggested that students in the most preferred disciplines such as electrical and mechanical engineering come from more privileged economic circumstances, possibly from better educational backgrounds, obtain the discipline of their choice to study for a branch of engineering where the employment prospects are comparatively very good. On the other hand, students in some of the least preferred disciplines such as civil and textile engineering come from less

economically privileged circumstances, probably from less good educational backgrounds, having had less exposure to the medium of instruction in the IIT, and obtain places in disciplines where the general climate of employment is, in cases such as civil engineering, one of depression and pessimism. It is suggested that this situation could seriously affect the learning and teaching climate, both positively for some disciplines and negatively for others, especially in the first years of study at the IIT.

Mechanical engineering students would appear to have attained the highest degree of 'institute satisfaction' being located at the institute which they have largely preferred. Textile engineering students have the lowest degree of 'institute satisfaction'. Forty per cent of all entrants indicate a strong desire to stay in the City for their course; this desire to stay in the place where their home is probably located, would seem to be more important than a preference for any one particular engineering discipline.

With regard to place of origin, there has been little major change in recent years except that a larger proportion of students from Bombay and its immediate region have been admitted, possibly at the expense of those from the States immediately adjacent to the City in which the Institute is located. This tendency may in some way be linked with developments in State language policies as well as general educational standards in the adjoining States. Of the 60 per cent of students who come from the City, approximately 45 per cent of the total number come from two major areas, one of which is immediately adjacent to the IIT. It is suggested that opportunity to enter the IIT is not evenly distributed geographically over the City's urban area. Research is needed to identify the reasons governing the uneven pattern of recruitment to the IIT from various sectors of the City. None of the entrants state that they are members of Scheduled Castes or Tribes.

IX

Discussion and Implications

As stated at the outset, the object of this paper was to draw attention to certain questions. Some of these may be rephrased and re-put, with a comment regarding their policy relevance to the IITs.

(1) *If the objective of an IIT is to turn out a particular product on which it is expending considerable energy and*

money, is it sure it is getting, within the present limiting constraints, the best raw material?

Are students being deterred from sitting for the entrance examination, not only because of what they perceive as poor employment opportunities for engineers and because of the financial costs involved, but also because of the lack of accurate knowledge about the IIT, and about available scholarships particularly among students of the immediate area where the IIT is located? Within this region, do such basic factors as physical inaccessibility effectively prevent otherwise well-qualified students from coming to the IIT? Is accurate knowledge available within the institutes regarding the income background of students? If the IITs have the task of producing a cadre of first-class engineers, there is possibly a good case for them to investigate whether they are recruiting from a wide enough catchment area, socially, economically and geographically. No one would build a steel plant and then simply feed in whatever ore was in the vicinity.

(2) *Does a concern with widening the IITs educational opportunities to the economically less privileged in any way conflict with the institute's other goals?*

Although this is a complex question, some aspects can be mentioned. Increasingly, decision-makers in engineering education are suggesting that the production of 'engineering entrepreneurs' ought to be one of the main goals of the Institute of Technology. However, limited evidence from students who have graduated from the institutes suggests that students most successful in pursuing this particular role have been those from financially well-placed families who, in addition to having immediate access to sources of capital essential for setting up their own industries, also had the psychological security provided by a stable financial background.

At the other extreme, cases are known where students from very underprivileged economic circumstances have undertaken a five-year course at the IIT only to discover that there are no employment opportunities on graduation. One case can be quoted in illustration. A final year civil engineering student, the eldest of five children, is the son of a tailor making an average Rs 600 to Rs 700 per month. As he feels particularly responsible to work and to assist in educating the younger family members, he is most anxious to obtain

any reasonably paying employment immediately on graduation. He has neither aspirations (nor possibilities) towards either 'self-entrepreneurship' nor to advanced research, technical management design nor to a high level executive post which he feels the IIT has been training him for. His own ambition is much more modest. The advanced and up-to-date courses have, for him, only 'miseducated' him for his main goal: UPSC success and a modest post in the engineering service.

Clearly, such cases — and considerable others exist — would come into conflict with educational programmes designed to produce advanced, risk-taking research or executive-style engineers for which an institute like the IIT might be aiming. Such considerations are of particular importance for IIT educational policy when in some courses, for example, there is considerable lack of congruence felt between the student's perception of the role he hopes to fill and the faculty's perception of the role he believes he is teaching for.

(3) *What is the effect of 'streaming', with the consequences outlined above, on the educational progress of students especially in the first two years?*

If allocating disciplines on the basis of merit list performance effectively divides students according to social, economic, linguistic and educational background, it would appear to have very serious educational consequences. If other factors are coupled with this such as the general psychological climate of relative deprivation as suggested above, motivation to learn in some groups would be seriously impaired. In the linguistically weak, economically and possibly educationally less privileged groups, inter-group exposure to vocabulary, concepts, ideas, would be significantly less than in the linguistically strong, economically and educationally more privileged groups. Disparities evident on entry would become stronger as students progressed through the course.

(4) *What is the long-term effect of 'streaming' on the image and reality of any particular branch of the engineering profession?*

As will be shown in the subsequent paper, decisions to take up any particular engineering discipline are extremely fortuitous and not based on accurate knowledge. The prevailing 'herd-instinct' behaviour and the system of discipline allocation have clearly consequences for both the social as

well as the intellectual image and reality of each of the major branches of the engineering profession.

(5) *Is the decision to continue post-graduate study abroad made independently of the job opportunities in India?*

One implication of a general rise in the level of parental incomes of students attending the IIT is that the possibility of continuing post-graduate training abroad becomes greater for those students whose parents can afford it. Should the institutes wish to encourage students to either take up available posts in India or to undertake post-graduate training in India rather than abroad, a more liberal scholarship policy for less financially well-placed undergraduates would be called for. In view of what would appear to be the relative deprivation of civil and textile engineering students, it would be worth examining whether proportionately fewer of these two groups go abroad for higher studies under their own financial arrangements than graduates in electrical or mechanical engineering. Other preliminary investigations suggest that this is the case. In this situation, it is seen that yet another disadvantage is built in for the less privileged students: those who find it difficult to obtain reasonably paid employment (such as civil engineers) and who would like to continue with higher studies, either at home or abroad, are least able to do this. On the other hand, the more economically privileged students in disciplines where employment opportunities are better (such as mechanical and electrical engineering), prefer not to take up employment in favour of going abroad for higher studies.

(5) *Is the geographical origin of students likely to affect adversely or otherwise, industrial development in any particular region?*

In view of the large numbers of students originating from the City area, and of the facilities which the city provides and the strongly expressed intentions to stay in the local IIT, indicated by a large proportion of students, will a large number of these local IIT graduates be less mobile than a hypothetically equally large number drawn from other regions outside the IIT area? Will the tendency for an increasing number of students to be drawn from the large metropolitan centres lead to their ultimate concentration in these areas, thus leading to further regional imbalances in industrial development?

Although specially designed investiga-

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tions would be needed to answer some of these questions, one of the purposes of this paper has been to demonstrate the extent of data available for analysis in already existing forms within the institutes. If such innovative institutions are to operate at their optimum level, further research is needed on these and similar issues.

NOTES

Institute of Applied Manpower Research, New Delhi. "An Analysis of the Pattern of Recurring Expenditure and Per Student Cost in the Institutes of Technology, 1968-69". IAMR Working Paper No 2/1970.

Ibid.

In addition to the above, see also

S D Tripathi: "Graduates of Indian Institutes of Technology in India and Abroad — A Study of Their Utilisation Pattern", *Manpower Journal*, III, 3, October-December 1967; Marshall F Merriam: "Brain Drain Study at IIT, Kanpur", *Manpower Journal*, V, 1, April-June, 1969; C Rajagopalan and Jaspal Singh: "The Indian Institutes of Technology: Do They Contribute to Social Mobility?" *Economic and Political Weekly*, III, 14, April 6, 1968; Government of India, Report of the Education Commission, 1964-1966; A D King: "Higher Technical Education and Socio-Economic Development", *Comparative Education*, Vol 5, No 3, December 1969; A D King: "Professional Education and the Needs of Modernisation",

Bulletin of the All-India Institute of Medical Sciences, Vol 3, No 1, January 1969.

For other studies in the economics of engineering education see, e.g. Leo Maglen and Richard Layard: "How Profitable is Engineering Education?" *Higher Education Review*, Vol 2, 2, Spring, 1970.

4 Rajagopalan and Singh, *op cit*; Education Commission Report.

5 See also Institute of Applied Manpower Research, New Delhi: "Employment Outlook for Engineers, 1969-70", IAMR Working Paper No 11/1969.

6 *The Statesman*, June 6, 1969.

7 Rajagopalan and Singh, *op cit*.

Interest Rate Policy

L D'Mello

In assessing the impact of interest rate variation on savings, investment and asset prices, it is quite unrealistic to go by the analogy of capital markets in the UK or USA or any other country.

Money and capital markets are highly individualistic and even more so are the social, legal and institutional factors affecting thrift, productivity and wealth.

The impact of the rate of interest in India, therefore, must be studied in the context of Indian conditions which are characterised by extreme diversity.

No attempt is made in this article to analyse factual and statistical data; only some opinions in regard to the quantitative and qualitative impact of interest rate variation have been examined.

[The views expressed are those of the author and should not be taken to represent the views of the organisation for which he works.]

RATE of interest has been defined as a compensation for holding "near money" rather than money. Given the demand for money, rate of interest is determined by the quantity of money available. The central bank can influence the rate of interest by virtue of its control over the quantity of money; Bank rate is the price for securing additional money.¹ In the development of the theory of Bank rate as an instrument of monetary policy with British background, two concepts — viz, the central bank as the lender of last resort and Bank rate as the penalty rate — played a crucial role. The penalty rate became effective only when the existing commitments of the money market institutions necessitated resort to the central bank. However, by open market operations, the central bank could bring about this eventuality.

Bank rate in India is not a penalty rate as in the UK; it is quite common to find the inter-bank call money rate higher than the Bank rate. Even though floating funds in the 'money market' are meagre, no scheduled bank needs to approach the Reserve Bank to bor-

row if Bank rate is higher than the rate on short-term funds. Secondly, partly flowing from the above, borrowing from the Reserve Bank is not the last resort. How frequently scheduled banks borrow from the Reserve Bank depends upon how profitably the funds can be lent. If the demand for bank credit is strong, resort to borrowing from the Reserve Bank would be had and a high Bank rate cannot impose a penalty on the borrowing banks to restrain credit expansion unless a ceiling is fixed on the rates charged on advances.

PACE-SETTER ROLE

In India, therefore, Bank rate is one of the many rates at which banks can secure reserves. Its anti-inflationary impact is limited, indeed insignificant, because, a high Bank rate can neither restrain the banks from augmenting their reserves by borrowing from the Reserve Bank nor curtail, in the existing conditions, the demand for bank credit. The influence of Bank rate on the liquidity of the banking system, e.g. through a fall in the value of bank investments, is also insignificant because,

first, the size of the investments (over the statutory requirements) is small and, secondly, the Reserve Bank has permitted ignoring of the loss of liquidity on this account.

It is, however, observed that the Bank rate has influence on the pattern of interest rates in India. "The role of the Bank rate as a pace-setter is important in Indian conditions, particularly in regard to short-term interest rates. Commercial banks normally adjust the rates which they offer on deposits and charge on advances to changes in the Bank rate."² In a statistical study for the period 1948-61 it was found that "a unit change in the bank rate affects short rate by about 1.4 points".³ Since Bank rate is hardly a weapon of monetary policy in the accepted sense of the term, its influence on the short-term rates (of which the rate on short-term bank deposits is by far the most important element) must be explained in terms of the Reserve Bank's role as the authority regulating commercial banks. The Reserve Bank's directive prohibiting interest rates on what are in fact call deposits from the

public and fixing rates on term deposits for various maturities must be understood in this light. By this directive the Reserve Bank has made manifest that its influence on the structure of interest rates rests on its administrative control of banks. The implication of this hypothesis is that the structure of interest rates sought to be brought about has no relation with the quantity of money or its distribution among the public. If there is no connection between Bank rate and the quantity of money and, secondly, between the quantity of money and the rate on term deposits, the question is: how is the appropriate level of the rate of interest (i.e. either the Bank rate or the rate on term deposits, as the case may be) to be determined. The easiest and perhaps also the best solution to this problem is to be pragmatic, to vary the rate in the upward or downward direction according to the impact of such variation on savings, investments and prices of assets.

IRRELEVANT ANALOGIES

Any variation in the rate of interest operates through savings, investments and the price structure of financial assets. These three factors are really aspects of the process of financial resources being made available for investment in the various sectors of the economy. The effects of interest rate on these factors, therefore, cannot be in practice separately perceived. Nevertheless, logically and for the purpose of the formulation of policy, the effects need to be studied separately. The theoretical possibilities of the variation of interest rates on savings, investments and the price structure of financial assets are well known; with an upward or downward variation in the rate of interest, the direction of change in the three factors can be predicted. This, however, is not sufficient information either to formulate a policy or to evaluate it. For these latter purposes not only the direction but the magnitude of the change in the various subsectors of the capital market have to be known and, secondly, the desirability of the anticipated changes in the context of the accepted economic goals must not be in doubt.

In regard to the process by which the effects attributable to interest rate variation on savings, investments and asset prices are worked out, it is quite unrealistic to arrive at conclusions by analogy with capital markets in the UK or the USA or any other country. Money and capital markets are highly indivi-

dualistic and even more so are the social, legal and institutional factors affecting thrift, productivity and wealth. The impact of the rate of interest in India, therefore, must be studied in the context of Indian conditions which are characterised by extreme diversity. In this article no attempt is made to analyse the factual and statistical data; only some opinions in regard to the quantitative and qualitative impact of interest rates variation have been examined.

CASE FOR HIGH INTEREST RATES

A point of view is that since in India capital is scarce, rate of interest should be high to reflect the scarcity. Scarcity of capital could be due to a low saving-income ratio in the past. But it also could be because the savings of the productive classes were used in the past to provide for the consumption of a vast number of people like landlords, moneylenders, speculators, etc, who did not contribute to the production of socially useful goods and services. Given the same proportion of savings out of the incomes of non-rentier and non-speculative classes of people in two countries, the country in which savings were used for making reproducible assets would have more capital at any point of time than the country in which the savings of the productive classes were not so used. A higher rate of interest in the latter country, unless it can divert more of the current savings into making reproducible assets, would serve no purpose at all; indeed, if higher interest rates redound to the advantage of social parasites, then actually it would be harmful from the point of equity as well as capital formation.

There is sufficient evidence in various official publications to show that a large proportion of the income of the Indian peasant and craftsman is still being appropriated by the landlords and moneylenders. A more appropriate solution than a high rate of interest to the problem of scarcity of capital in India is perhaps to bring about a change in the institutional arrangements by which the rentier income could be reduced. The generalisation that rentier income tends to be saved and thus contributes to a lowering of the average propensity to consume is valid only if the total consumption of the rentier class is a small proportion of the surplus production of the productive classes and, secondly, if the surplus over its consumption is invested in productive assets. Landlords, moneylenders, a large section of trader-intermediaries and recently, in metropo-

litan cities, those who engage themselves in land speculation and house construction business, draw a large proportion of the surplus of the productive classes, from a significant proportion of the total population, and use their incomes for conspicuous consumption or for investment in socially unproductive assets.

CREDIT FOR CONSUMPTION

A view has developed in this country that denial of credit to individuals for consumption purposes is a salutary measure, that it contributes to capital formation by restraining consumption. Credit in a money economy is supposed to bridge the interval between expenditure and accrual of income. This is the basis on which credit for business purposes is extended. There is no reason why the same consideration should not be applicable to non-business spending units. Quite apart from the inequity of denying credit to non-business spenders, such denial is impossible to enforce. As long as there is a source of income for repayment of credit together with interest thereon, there would be lenders to supply the credit. If credit from the organised sector is not allowed for the purpose, the limited resources of the unorganised sector would raise the cost of consumption credit. The result would be that when the borrower realises his income — say at harvest time — a larger proportion of it would go as interest on borrowings, necessitating even larger borrowings in the subsequent period. This is not evidence of shortage of capital but rather of shortage of institutional credit. The high rates of interest prevailing in the unorganised money market are no guide for making adjustments in the rates in the organised sector; it is rather an indication that the enormous elasticity in the credit supply of the organised money market should be more purposefully put at the disposal of the subsistence farmers and unorganised small business.

Recent developments in banking policy are in the right direction and may be expected to bring down the interest rates in the unorganised money market. If essential consumption of productive classes — farmers, handicraftsmen, shopkeepers, etc — is regarded as working capital (comparable to wages) and provided at rates prevailing in the organised money markets, the proportion of interest payments of these classes will be reduced and so also, in course of time, their need for credit for subsistence purposes. The present situation tends to increase the proportion of

interest income in the economy, which apart from accentuating inequalities, canalises savings of the community, through the intermediary of money-lenders and other agencies of the unorganised sector of the money market, to low priority sectors of the economy.

THE UNORGANISED SECTOR

Based on the notions of productive credit and scarcity of capital, it is sometimes said that the rates of interest in the organised sector of the money market are unrealistic, that they are a facade to hide the dire fact that capital is scarce. It is believed that the real level of interest rates is reflected in the unorganised sector of the money market.⁴ If the high level of interest rates are supposed to equate the low level of current savings in relation to the profitability of investment opportunities, the unorganised market can hardly be expected to reflect these conditions. It is well known that borrowings in the unorganised markets are either for the purpose of bridging the interval between consumption and accrual of income or for consumption of a social type which occurs occasionally and in large amounts or for investment in non-income yielding assets such as gold or in low income yielding assets such as agricultural land, house building and small trade. If the real factor of productivity were to determine the demand for funds in the unorganised sector, the rate of interest would have been very low indeed or in the alternative the amount of borrowings would have been negligible. In fact, of course, the rates reflect scarcity of money, the concentration of the available funds in a few monopoly hands and the widespread demand for small amounts of loans.

One of the advantages claimed for a high rate of interest is that such a rate in the organised sector of the money market would attract funds from the unorganised sector. It is believed that with a rise in the rate in the organised market the differential between the rates in the organised and unorganised market would narrow down, inducing a certain proportion of the funds in the unorganised market to flow into the organised market.⁵ The question is: why should the differential narrow down? There is no ground to believe that with a rise in the rate in the organised market there will not be a simultaneous and proportionate rise in the unorganised market. In this connection it is pertinent to note that Kanshik on the basis of his study of the structure of interest rates during 1948-

49 to 1967-68 came to the conclusion that "a rise in the level of the rate in the unorganised money market (the bazar bill rate) is not the cause but the effect of a rise in the levels of other rates".⁶ It is possible to prevent such a rise in the unorganised money market, if along with a rise in the rate in the organised sector, the supply of credit from that sector to the unorganised sector increases or in the alternative demand for credit in the unorganised sector declines. Neither of these two alternatives is probable. However, should the flow of funds from the organised money market to the unorganised sector of the economy increase, then the resulting fall in the demand for their funds would induce moneylenders to divert the funds to banks and other in-

stitutions of the organised money market. This, however, has no reference to the rates of interest.

NOTES

- 1 Radcliffe Committee Report, p 392.
- 2 B K Madan's essay on Indian Banking in "Commonwealth Banking System", edited by W F Crick; Clarendon Press, 1965, p 233.
- 3 K Krishnamurthy, "Structure of Interest Rates in India" *Arthavijana*, June 1965, p 151.
- 4 PBM, 'Interest Rate Policy', *Economic Weekly*, November 7, 1959, p 1500.
- 5 B K Madan, *op cit*, p 234; and PBM, *op cit*, p 1529.
- 6 S K Kanshik, "The Structure of Interest Rates in India", *Arthavijana*, December 1969, p 609.

Mettur Chemical

METTUR Chemical has secured a letter of intent to step up production of rayon grade caustic soda by 20 tonnes a day. The foreign exchange requirement of the project, estimated at a little over Rs seven lakhs, is being negotiated with financial institutions. The rupee part of the expenditure will be financed from internal resources. Orders for certain items of indigenous plant and machinery have already been placed, and the expanded capacity is expected to be in operation by early 1971-72.

During its 33rd year to March last, Mettur's production of caustic soda touched an all-time high of 39,113 tonnes (equivalent to roughly 99 per cent of installed capacity) compared with 32,080 tonnes in the previous year — an increase of about 22 per cent. Production of liquid chlorine and hydrochloric acid also showed a comparable increase. In stable bleaching powder, production had to be kept pegged at 5,022 tonnes as against 5,585 tonnes because of competition and difficulties in getting quality limestone. In miscellaneous chemicals, production of sulphate of alumina and potassium chlorate had been kept low on account of restricted sales. Salt production was maintained at a satisfactory level. Recently, the company has taken on lease at Adirampattanam an additional area of about 90 acres for production of salt. Production of vanaspati and vegetable oil products was slightly higher despite the difficult raw material position and the high cost of groundnut oil. Vanaspati prices, fixed by Government, did not keep pace

with widely fluctuating oil prices. Gross production of chloromethanes was about 29 per cent higher at 2,869 tonnes. The limited offtake by one of the major consumers of carbon tetrachloride and chloroform and the short supply of methanol which is the principal raw material, stood in the way of achieving a higher output.

Net sales advanced by 19 per cent to Rs 7.01 crores and, with margins widened, gross profit jumped 52 per cent to Rs 1.20 crores. With no liability for taxation on account of the company's entitlement for accumulated unabsorbed depreciation and development rebate, net profit was Rs 56 lakhs (Rs 16 lakhs). Equity dividend, stepped up from four per cent to 10 per cent, was covered twofold, and net return on total funds employed in business came to 7.7 per cent. Relations with labour continued to be satisfactory during the year. An agreement has been recently arrived at whereby graded increases in emoluments have been given. The research and development department has evolved an improved process for production of chlorinated paraffin wax. A product superior to imported material has been synthesised, and a small pilot plant has been set up. Research studies are continuing for improving the process operations with a view to establishing a larger unit in due course. Export shipments of methyl chloride to Malaysia are being carried out systematically, and efforts are being made to secure export business for carbon tetrachloride.

UNBEATABLE

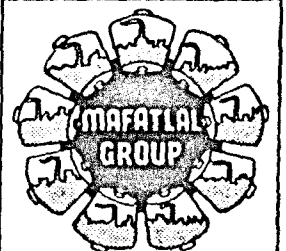


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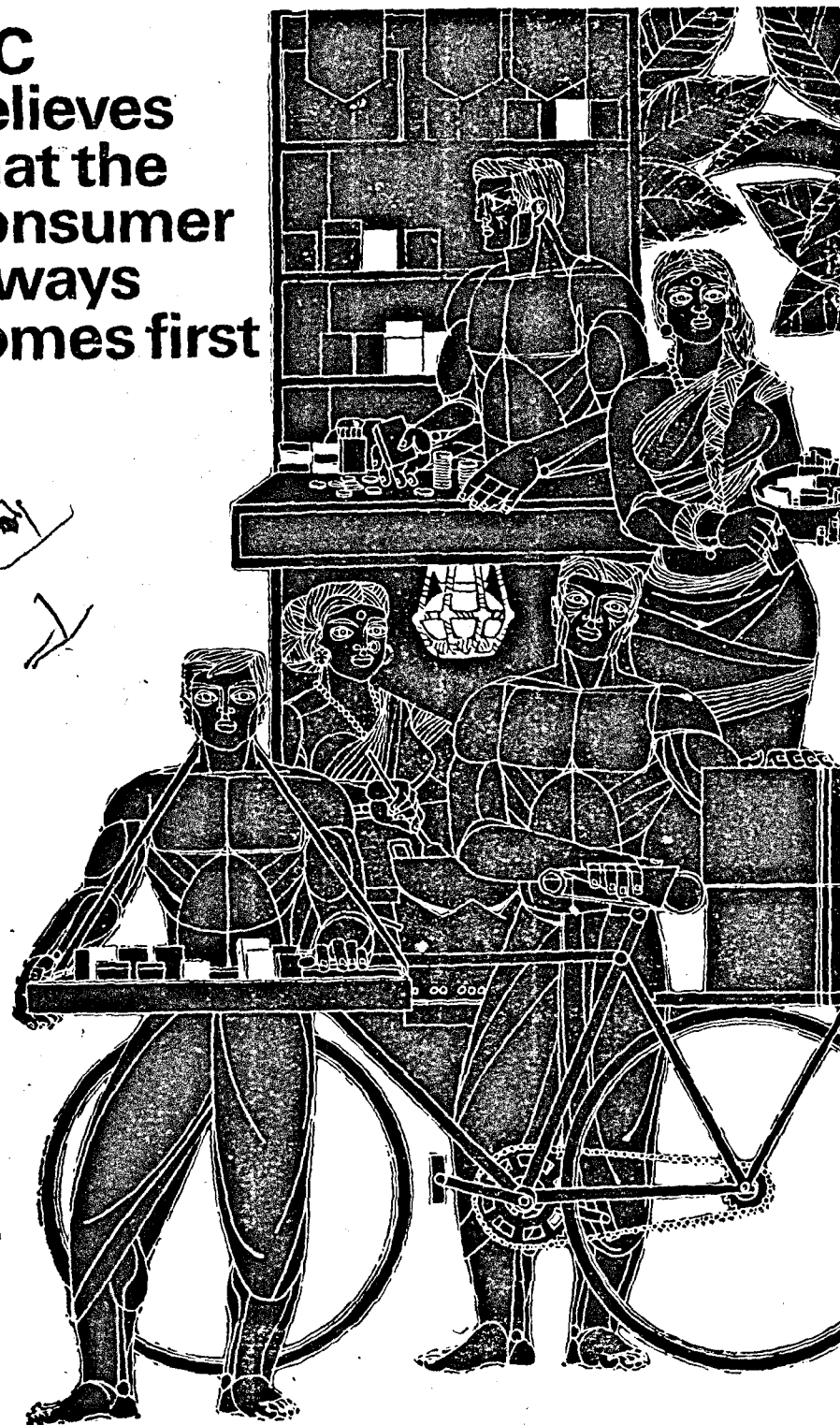
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Printed by Krishna Raj at States' People Press, Jannabhoomi Bhavan, Ghoga Street, Fort, Bombay-1, and published by him for Sameeksha Trust from Skylark, 284 Frere Road, Bombay-1.

August 29, 1970

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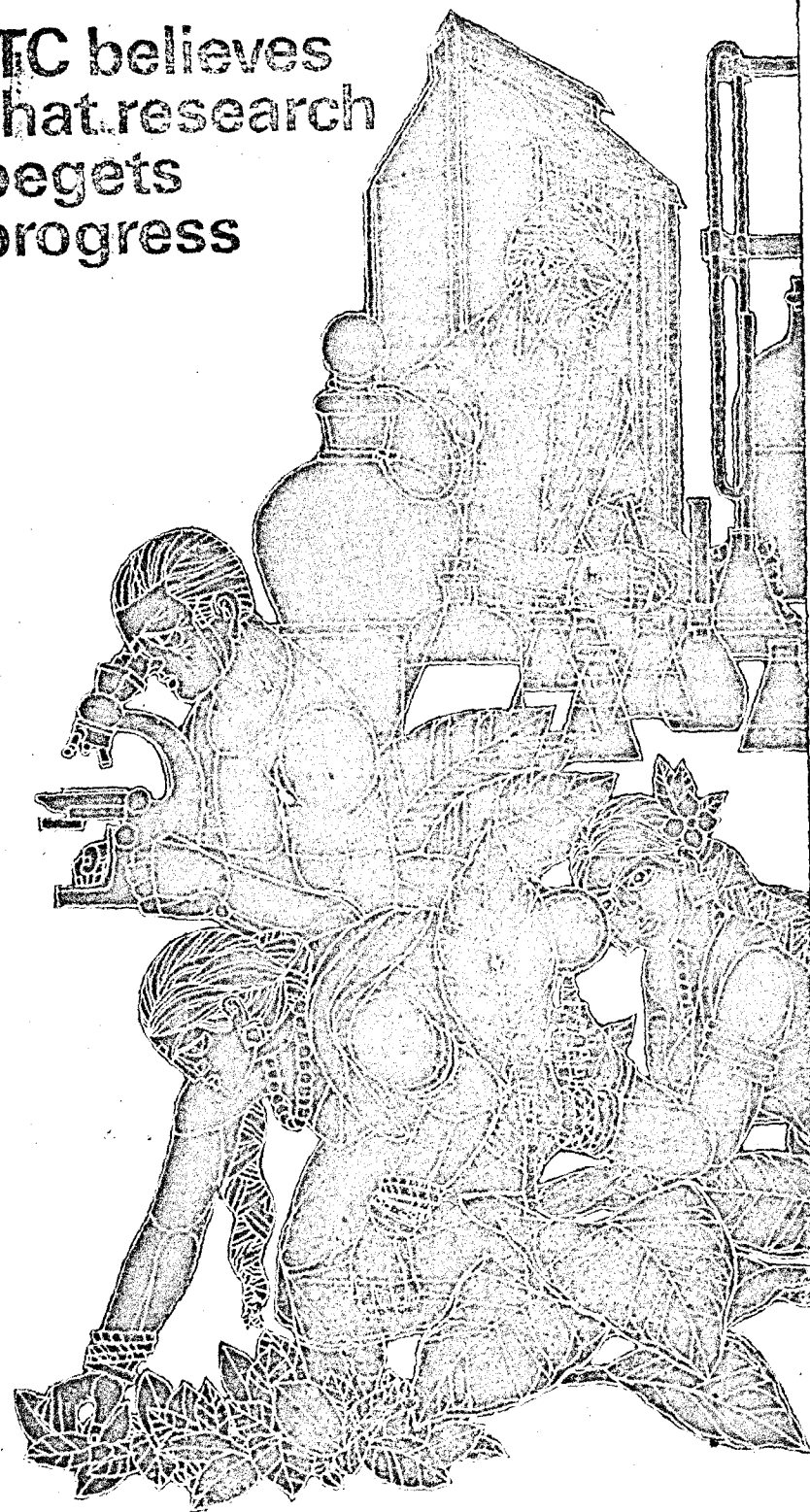
THE IIT GRADUATE: 1970

MUSLIM DECULTURISATION?

HOW NOT TO LOOK FOR MINERALS

DEPOSIT MOBILISATION

ITC believes that research begets progress



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**India ITC
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ECONOMIC AND POLITICAL WEEKLY

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ECONOMIC AND POLITICAL WEEKLY

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Operative Instrument, Indeed!

TO relieve the monotony of what must have become by now a rather dull and repetitive exercise, the Planning Commission makes fresh claims on behalf of each year's Annual Plan. Thus it was claimed on behalf of the Plan for 1969-70 that it would mark the "resumption of phased development of the economy". The claim advanced for the Plan for the current year is that it is "an operative instrument of implementation". What are the Plans, especially the Annual Plans, if not instruments of implementation? If, as appears to be implied, they were not till this year, what other instruments were used for implementation? In any case, what is the distinctive characteristic of the 1970-71 Plan which makes it more of "an operative instrument of implementation" than its predecessors?

A long-standing criticism of our Plans, which has been considered particularly valid in the case of the Fourth Plan ("Planning by the Slide-Rule", May 23, 1970), is the absence of any attempt in them to spell out the policy implications of their broad objectives as well as specific programmes. Does the latest Annual Plan's superiority over its predecessors then lie in that, for once, the policy assumptions underlying it are made explicit? This, unfortunately, is hardly the case. One finds no concern in it for the policies that will be required to achieve its various targets — whether they be price stability, or generation of surpluses by public undertakings or a seven per cent growth in exports.

What, in the Planning Commission's view, makes the latest Annual Plan "an operative instrument of implementation" is that the Commission "issued more detailed guidelines than hitherto to the State Governments and Central Ministries in respect of the Plan as a whole as also for specific sectors of development". Further, "the State Governments and Central Ministries were advised to work out details of programmes, their interrelationships and administrative measures required to be taken during the year". In what way are these supposed innovations reflected in the Annual Plan document? It does contain, as appendices, long lists of Central and Centrally-sponsored programmes together with the proposed Plan outlays for the year. But there is nothing in these lists to even remotely indicate that the Central Ministries have worked out "details of programmes, their interrelationships and the administrative measures required to be taken". The lists could have been quite easily compiled out of the detailed Budget allocations — without the benefit of any guidelines or advice from the Planning Commission.

And what about the States? Here the array of detail is somewhat less impressive. At the very end of the document there is a list of "Important Projects under Irrigation, Power and Industry during 1970-71: States and Union Territories", but far from containing any evidence of their details having been worked out or their interrelationships unravelled, even the outlay figures (which the Planning Commission is always ready with) are not given against them. Indeed, the States part of the Annual Plan is so nebulous that instead of acquitting itself as "an operative instrument of implementation", even its target of aggregate outlay seems little better than a guesstimate. The increase in outlay from Rs 2,270 crores in 1969-70 to Rs 2,822 crores does seem very impressive, especially against the background of stagnation in investment in the few immediately preceding years (in 1969-70, the first year of the Fourth Plan, Plan outlay was actually lower than in the previous year). But out of the increase of Rs 552 crores, as much as Rs 237 crores is in the States sector, the financing of which the Planning Commission has virtually left to the gods. Except for an increase of Rs 10 crores in Central assistance, the Plan says, the rest of the increase is "wholly on account of (sic) the additional resources to be generated by the States themselves". And are these resources going to be generated? With disarming frankness, the Plan concedes within a few pages that the measures of additional resource mobilisation "announced by [the States] in their budgets for 1970-71 are, however, expected to yield in this year about Rs 24 crores only". Need one say anything more about the status of the Plan as "an operative instrument of implementation"?

But that is not all. What about the private sector? One looks in vain for any discussion or even mention for the volume and pattern of private investment in 1969-70 or for any estimates of what they ought to be, or are likely to be, in the current year. A great deal has been said about the failure of private investment to pick up; but evidently this is not a subject that concerns the Annual Plan for 1970-71, though over the five-year period the Fourth Plan takes credit for Rs 8,980 crores of private investment. How much of this in-

vestment is to take place in 1970-71 and where? Surely, from the point of view of the demand for and supply of various physical resources this is something which is as much relevant as the quantum and pattern of public sector investment? That apart, in the absence of any guidance from the Planning Commission, what do the financial institutions, including commercial banks (which are constantly exhorted to tailor their operations to so-called Plan priorities), have to guide their working? And yet the Planning Commission would have everyone believe that the Annual Plan is nothing short of an "operative instrument of implementation". Must the Commission devalue itself like this?

This is not the place to go into the details of the Annual Plan. But there are figures here and there which by their apparent incongruity cast doubt on the utility of the entire mass of data which is, one presumes, the product of many precious man-years of labour in the pigeon-holes of Yojana Bhavan. To take but a few. The Table on "Selected Physical Targets and Achievements" shows that in agriculture the target of area under high-yielding varieties was exceeded in 1969-70. And yet consumption of all varieties of fertilisers — nitrogenous, phosphatic and potassic — was substantially below targets. There could conceivably be some explanation reconciling the two sets of figures, but one looks in vain for it in the Plan. Further, the target of area under high-yielding varieties for 1970-71 is almost 40 per cent higher than the target for 1969-70, but the target for consumption of nitrogenous fertilisers is only fractionally higher than that for 1969-70 and the targets for consumption of phosphatic and potassic fertilisers are actually lower!

From the statistics in the Annual Plan it is evident that the family planning programme suffered a virtual collapse last year. Achievement was 45 per cent of target for sterilisations and 28 per cent for IUCD insertions! The targets fixed for 1970-71 are, again, only a fraction of those for 1969-70. If this dramatic scaling down of the family planning programme has any implications for the Fourth Plan's altogether optimistic expectations about population growth the Planning Commission evidently would rather not talk about them.

Consistently Wrong

ON the eve of its fourteenth Independence Day, Malaysia's Prime Minister,

Tunku Abdul Rahman, announced his impending retirement and replacement by his close confidant, Abdul Razak, the immediate restoration of party political activity and the resurrection of Parliament in February 1971. The departure of the Tunku does not herald any significant change in government policies though it will increase the fears of Malaysian Chinese and Indians that their well-being will be a lesser consideration for his successor. On the other hand, Abdul Razak's standing is higher than that of the Tunku among the Malay population many of whom feel that the Tunku has been too 'soft' on non-Malays.

The change in personalities at the helm of affairs only helps to underscore the ideological *immobilisme* of the party that the two men helped create, the United Malays National Organisation. This sense of political atrophy and lack of dynamism has been openly displayed again by the circumscribed manner in which political activity and parliamentary functions are proposed to be restored. In effect, the government has stipulated that political discussion will now be permitted but the very issues which are crucial to the future prospects of this racially divided society are not to be subjected to discussion. These issues include established Malay privileges (such as civil service job reservations and land rights), the status of the sultans and king and the primacy of Malay, the National Language. This ban will also apply to deliberations in Parliament. The National Operations Council (NOC) which has virtually been ruling the country since the proclamation of emergency measures after the serious race riots in May last year will continue in being and will exercise security functions, which in plainer language means that the NOC, and not Parliament, will be the arbiter of law and order.

A new National Ideology, the *Rukun Negara*, has been invoked. It stipulates five beliefs and five principles. The beliefs are a united nation and a democratic, just, liberal and progressive society. The principles are belief in God, loyalty to king and country, upholding the constitution, rule of law and good behaviour and morality. It is doubtful whether these vague epithets can be the motivating force for a new movement towards racial harmony. Much more important to the racial climate in the country will be the next economic plan to be published shortly, covering the period till 1974.

Malaysia is the classic example of the

type of plural economy and society created by colonial rule in which Chinese and Indian immigrant labour was imported to develop the export sector of the economy, mainly rubber and tin, while the indigenous population of Malays were left alone to continue their subsistence farming. Since maximising production and not any thought of social uplift was the main goal of the colonial masters, the result has been a thoroughly compartmentalised society where not only do the Malays, Chinese and Indians work in distinct sectors of the economy but they also largely live in distinct concentrations. With increasing industrialisation and urbanisation the three races are intermingling much more than before and competing for jobs and housing. This has led to greater tensions in contrast to the previous artificial calm. Another important result of the colonial economy is that Malay earnings have been less than those of the Chinese and Indians. The last reliable estimate which is out of date, but still significant, shows that the per capita income of the Malay was 359 Malayan dollars while that of the Chinese was M\$ 848 and M\$ 691 for the Indian.

To overcome this imbalance the Malaysian Government, till the riots last May, relied largely on the formula that the economic preponderance of the Chinese could be offset by Malay dominance in politics and administration. Efforts were made to improve the economic condition of the Malays through internal Chinese private enterprise and foreign private investment. This method was not very successful as the logic of unrestrained private enterprise development is to enrich those who already possess capital and the requisite entrepreneurial skills. The class of Chinese industrial owners and workers was further enlarged. The government-run schemes for rural Malay uplift through such organisations as the Federal Land Development Authority met with more success. This concentration of public sector development, however, led to the justified feeling among the Chinese and Indians that the Malay poor were being looked after while the considerable numbers of equally poor Chinese and Indians were being ignored. This coupled with the Chinese and Indian desire for a greater share in the political and administrative running of the country were among the causes of the serious reverses for the tri-communal Alliance Government, which had ruled the country since Independence, in the general election of May 1969,

and the subsequent race riots.

It seems that the *effete* leaders of the Alliance, which in effect means the top men of the Malay party of the Alliance, the United Malays National Organisation, have reacted after more than a year of authoritarian government by now allowing only restricted political activity and barring politics from those very subjects which the non-Malays feel require drastic rethinking. Malay political privileges are declared to be outside the realm of politics while the indications are that the economic plan will, as Abdul Razak said in his national day message, attempt to "permanently remove . . . the economic disequilibrium which cuts along racial lines". In fact, the emphasis, if Malaysia is to be a harmonious society, should have been on the economic imbalances which cut across racial lines.

Until recently the country had been ruled on the naïve premise that social beings can be segmented into separate economic and political spheres of activity. This mechanical concept of balance between economic and political forces was discredited in the convulsion last year. This concept has now been partly replaced by the idea of discouraging instead of encouraging greater political participation of all the three races. At the same time the reliance on private enterprise is to be increasingly supplemented by a peculiar kind of state participation in the economy, a kind of communal socialism for the benefit of Malays only. One can only hope that that there will be no renewal of racial fighting in spite of the consistently wrong decisions taken by the Malaysian authorities.

Limited Patents

A Correspondent writes:

EVEN for a country where every decision takes so long to be taken, the Patents Act can claim to have set a record for the time it was in gestation. Yet for that reason the significance of its enactment, sudden as it was, should not be underestimated.

The passing of the Patents Bill at last marks the end of vacillation by Government in the face of strong foreign pressures. The issue had been examined by numerous expert committees; at the same time foreign companies, especially those in the pharmaceutical industry, and even some foreign chambers had talked ominously about deleterious consequences for foreign investment — not without effect, since the late Lal Bahadur Shastri was persuaded to put off consideration of the Bill.

To the clerks of economic analysis,

what is significant about the Bill is the reduction in the duration of patents and in amount of royalty payable — incidentally, forced on a reluctant Government by amendments from the floor. These are relevant in the balance-sheet calculus, but not very significant in their economic impact.

What is of significance are the provisions of the Act relating to restriction of patenting of process knowhow and to compulsory licensing of patents. In some areas patents are no longer to be granted to products but only to processes. This will considerably reduce the scope for patenting and, thereby, for deliberately thwarting competition. Similarly, patents will no longer be allowed to be hoarded: they will become usable by anyone on payment of appropriate royalty.

These provisions should impose substantial restrictions on patenting and use of patents. Indian industrialists who have shown neither the US-European interest in original research nor the Japanese skill in copying, can now expect to be able to make straightforward purchases of patents.

Yet, this is only one step in the development process. The next step would be to increase research and development activity within the country. Reliance on foreign technology will not be reduced merely by freer access to patents taken out by foreigners. Ultimately, the answer has to be sought in greater and more purposeful development of local research — fundamental and applied. This is the opportunity which the new legislation offers.

Despite the Crude Base

EARLY this month, the Minister for Petroleum and Chemicals announced that the Gauhati refinery in Assam would be expanded from 0.75 million tonnes to 1.75 mn tonnes. The decision to expand Gauhati followed an expert committee's report in June. Three weeks after the Government decision, the expert committee has been asked to 'reconsider' the question of whether Gauhati should be expanded or whether a second refinery should be set up nearer the crude oil well-head. The injunction to the committee followed a joint representation to the Centre of Assam Ministers and Members of Parliament, and even the leader of the State's 'Second Refinery Sangram Parishad'. While the information made available to the public is too skimpy to be able to judge which alternative is more economic, the figure of Rs 5 crores has been brandished to underscore the heavy cost of another pipeline from the well-head to Gauhati. On the other

hand what would be the additional cost of a totally fresh outlay for a refinery at the well-head? Further still, what are the grounds to believe that further expansion of refining capacity in Assam is at all warranted?

In fact, the data on availability of crude and the events that have led up to the latest reversal of decision on expansion suggest that considerations not entirely pertaining to oil economy have been at work.

Last year, following the agitation for a second oil refinery in Assam, the State was vaguely promised 'an additional one million tonnes' of refining capacity. The promise was incorporated, as vaguely, in the Fourth Plan without any reference to a second refinery. An expert committee was also set up under N N Kashyap, chairman of Indian Oil Corporation, to weigh against each other the alternatives of a second refinery and expansion of the existing refinery at Gauhati. Without, evidently going into the question of the advisability of additional capacity in Assam, the committee advised that it would be 'more' advantageous to expand Gauhati than to set up a new refinery. Expansion of Gauhati and the planned petrochemicals complex are expected to cost Rs 92-94 crores.

Inevitably, the State itself has a stake in oil which is wider than the crude's most economic refining. The employment and regional development aspects of a fresh and sizeable outlay cannot be underestimated. If the instruction to the Kashyap committee to reconsider its assessment merely heralds the Centre's concession to Assam on this score, it will be yet another flaw in the calculations of our oil economy of which the weakest premise has been availability of crude oil.

Assam has been no exception to this weakness. An official study of the country's recoverable crude oil reserves stressed Assam's weakness. During the eight years, 1961-69, there has been a steady decline in the production of crude by Assam Oil Company. Also, there has been hardly any increase in the production of Oil India the agency primarily responsible for prospecting in this area — the claim by the Centre that Oil India has located three oil-bearing areas in Assam, notwithstanding. Oil and Natural Gas Commission, the other national prospecting agency, has also had little success since 1963-64, though Rs 181 crores have been set aside in the Fourth Plan to enable it to step up its operations in Tripura in Assam as well as in the offshore projects of Gujarat and Maharashtra. In fact, for all India, while indigenous pro-

duction of crude stood at 6.7 million tonnes in 1969, it is expected to actually dwindle to 5.5 million tonnes within this Plan period unless there are new proved oil strikes. It needs to be recalled, too, that if at one stage the second oil refinery in Assam was being ruled out it was because the existing oil sources in the State were known to be drying up. The expansion of the State refining capacity by one million tonnes, promised in the Fourth Plan, will therefore have to be on the basis of imported crude. The Fourth Plan explicitly provides for a crude import of 20 million tonnes by the end of the Plan, on an optimistic expectation of indigenous production of 8.5 million tonnes. To get to, even that increase in indigenous supply, existing negotiations for collaboration both on Bombay High and Aliabet's deeper waters will have to be considerably speeded up. Meanwhile, Gujarat has plans to represent for further expansion of its own capacity.

Prospects of a decline in world oil prices may encourage a slight euphoria regarding the expansion of oil refining capacity in the country, but the scale and significance of the country's dependence on imports must not be underestimated. Concessions on non-economic grounds to the various States may indeed hustle the Centre into never questioning the entire basis of its fuel policy — which may be unfortunate should the anticipated offshore and interior sources prove to be not so munificent.

Coal and the Price-Line

D C Kale writes:

COKING coal prices in UK have gone up from September 1. The move for

higher coal prices in UK has interesting parallel in India. The coal situation in the two countries is similar since coal prices are controlled by Government and the major consumers are state undertakings. The main difference is that in UK all coal is produced by the National Coal Board, whereas in India the National Coal Development Corporation is by no means a state monopoly. The NCB received two price increases in 1969 and a report by the UK National Board for Prices and Incomes, which preceded the recent raise, contains many interesting observations about further price increases. The report is of considerable relevance to the Indian situation and, therefore, deserves attention.

The NBPI report goes into the operations of the NCB in detail. The NCB is under a statutory obligation not to carry forward an accumulated deficit of more than £50 million and, therefore, has to ask for higher prices from time to time. On the other hand, such increases are partly self-defeating because they encourage use of competing fuels and lead to higher wage demands from coalminers. The NBPI wants to relate prices to marginal resource costs rather than continue the system of periodic arbitrary increases, and is examining this approach further. Its report draws attention to the disparity between output forecasts and actual results, and wants future forecasts to be realistic, with upper and lower limits based on definite probability levels. Another interesting point in the NBPI report is that it does not accept NCB's case for providing for cost increases due to factors yet to be experienced on the ground that the very making of such a provision would contribute to the in-

flationary process.

The report concedes that some increase in price may be necessary, but suggests that it should apply only to coking coal, which is in short supply, rather than to all grades. Consistent with this position, it recommends a 15 per cent rise in coking coal prices from September 1, which will bring an additional £17 million to the NCB in this financial year. The NCB is, however, in the middle of wage negotiations and may have to ask for another price increase soon. The report feels that two such consecutive increases would be unwise on purely commercial grounds.

The UK Government thus faced a dilemma: if it agreed to a larger increase in coal prices than recommended by NBPI, it would be anticipating the outcome of the NCB's wage negotiations; if it did not, then it may later have to increase its borrowings or taxes or both. In the event, Government did accept the NBPI's recommendations. It is worth noting, in passing, that it took the UK Government only about a week to take a decision on the NBPI report. The next week, it had a demand from the (nationalised) British Steel Corporation for a 5 per cent increase in steel prices which would yield £60 million per year to BSC — of course, at the cost of steel consumers.

The moral for India is plain: a thorough study of coal production, marketing and pricing over the next several years is absolutely essential. A permanent body as dedicated and competent as NBPI may not exist in India, but, surely, one can be fashioned for specific purposes? Steady and dependably-priced coal supplies would do much to underpin current attempts at holding the price-line.

Trimming at the Fringe

AT the end of last month Reserve Bank directed banks to insist on transfer of voting rights attached to shares pledged with them by borrowers and to use the rights with its prior approval. Considering the revelations made in official reports on the Mundhra deal and other attempts at takeovers by equally enterprising speculators, the decision was overdue by at least a decade.

The stipulation embraces borrowings of over Rs 50,000 and prohibits banks from lending against partly paid shares. Advances to sharebrokers are also covered wherever they are for terms of over three months. The transfer of vote has to be complete — without conditions prescribing proxies in consonance with borrowers' wishes — and has to be stipulated in every share loan agreement. In the case of existing loans, the stipulation will be incorporated in the fresh loan agreements when the loans come up for renewal.

Though belated, the decision to lodge voting rights attached to pledged shares with lending banks and to acquire control over their use will put a brake on accumulation of voting rights by speculators through successive pledging of shares cornered with bank loans. This is not to say that all the gaping loopholes in the financial system, which make it possible for a speculator to take over companies with public funds or to use such funds to get out of difficult situations resulting from miscalculated speculative deals, have been plugged.

What control, for example, does a commercial bank or the Reserve Bank have over diversion of bank borrowings by companies belonging to powerful groups for fresh acquisition of fixed assets? Similarly, the policy imperatives for controlling adventurist speculation remain vague. What the Reserve Bank does can be effortlessly undone. Thus the current boom in the share markets is not wholly attributable to back door forward trading. At least partly the boom has been inspired by the more than Rs 2 crores made available to Goenka by Unit Trust, a public sector undertaking, which purchased large blocks of Tata Steel and Telco shares 'from the market'. Was it absolutely unavoidable that UTI should have come to the rescue of Goenka who, as is well known, is just now in a tight spot over his large holdings of Indian Iron?

And what about so-called deposits

from the public? It is still open to companies to borrow from the public and use the funds for acquiring controlling interests in other companies. The tapping of such public loans has become a major source of finance to companies. The Reserve Bank's department of non-banking companies has stipulated that deposits of companies from the public should be confined to 25 per cent of their paid-up capital and reserves. But the ceiling does not apply to loans taken against the guarantee of any one of the borrowing companies' directors. What is the justification for this exception? A deposit, against which a company issues only a receipt, and a loan, the receipt for which incorporates at least one director's guarantee, are both equally clean loans.

In sum, whatever the difficulties in the short run — and however severe they might seem to speculation in temporary difficulties — enough options have been left to them to recover and pursue their objectives. Only the fringe of the supply of public funds for such pursuit has been touched.

New Winds at LIC

A PART of the problem before T A Pai, LIC's first non-official chairman, is to live down the Corporation's past. LIC set itself a target of Rs 1,000 crores of fresh annual business six years ago, but achieved it only in 1969-70. Similarly, despite going through all the motions of dispersing its investments, it did not escape some rather spectacular *faux pas* — from Mundhra to Kapadia and Goenka. Nor did nationalisation bring LIC any nearer the common man; the average size of its policies has tended to increase — a trend which was conspicuous in 1969-70 when the average size of policies was Rs 7,394 as compared to Rs 6,390 in 1968-69. Also, LIC remains urban-oriented. Most important perhaps, it has failed to earn a reputation for efficiency or considerateness in dealings with policy holders.

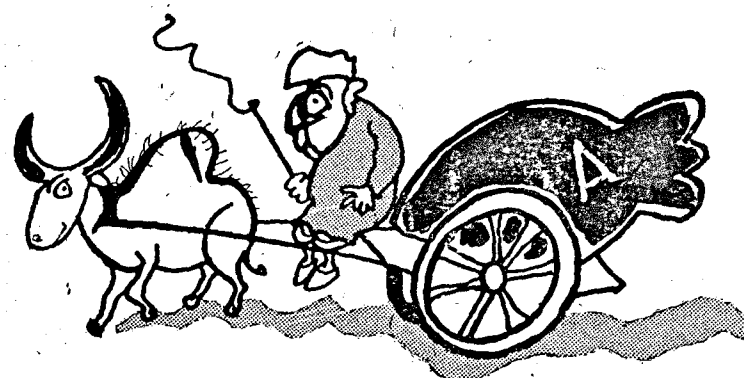
Conscious of the Corporation's none-too-glorious past, Pai startled his own officials when he announced at a press conference this week that LIC's effort would now be to double its annual business to Rs 2,000 crores in three years. LIC-men might prefer to aim at a safe growth rate of 10 to 12 per cent

a year but this, Pai thought, was "just not good enough". New business in the first five months of the current year, the first full year under Pai's chairmanship, has been 25 to 30 per cent above the level achieved in the corresponding period last year. Pai did not underestimate the difficulties of sustaining this rate of growth, but asserted that this would have to be done.

It can hardly be said that Pai is setting his sights too high. In proposing the target of a doubling of business he is evidently basing himself on the growth of money incomes, the rapid commercialisation of agriculture and the revival of industrial output and employment. Of course, on the other side there is the rise in prices and the consequent erosion of the capacity to save; but these do not seem to worry Pai as much as they did to some of his predecessors, who had made an annual dirge of them. What bothers him more is the emergence of competing tax-free investment outlets. To this his answer is to make life insurance more attractive which he would do through higher bonuses on with-profit policies rather than through marginal reductions in premium rates.

This hinges on improving the yield on LIC's investments. There has been a gradual improvement in yields during the last decade but a spurt is now called for, especially considering that in recent years LIC has had a harrowing time covering its bonus liability. Pai mentioned the recent mark-up in interest on loans to policy holders, but this would go mainly to covering the Corporation's higher wage bill, stemming from the recent settlement with staff. Since the bigger policy holders predominate among borrowers, an added justification for raising the rate of interest on loans is the possibility that cheap LIC loans are being diverted into other profitable investments.

LIC, Pai disclosed, was unwilling to invest its share of compensation received by Central Bank of India Ltd in Telco through the company's merger proposal, suggesting that it had better avenues for employing the funds. Pai, however, denied that LIC proposed to gradually withdraw from the capital market, adding that in judging LIC's recent investment policy, two factors had to be taken into account: first the shortage of good shares and worthwhile underwriting proposals and, second, the emergence of UTI as a major buyer of shares from the share market. True,



Vijayan



"Look, son. That's our Military-Agricultural complex!"

the ratio, of LIC's investments in the private sector was currently around 16.5 per cent, or about 3 percentage points below that a few years ago. But LIC's ability to maintain a higher ratio, Pai pointed out, depended on the availability of investment proposals from the private sector and during a slack LIC could not just keep its funds idle. Besides, though LIC's direct participation in the share market — called, rather pompously, the capital market — may have declined, its support to the private sector has not since LIC has been providing increasing assistance to SFCs. In any case, as Pai put it, the crucial test is: "how many worthwhile underwriting proposals have we rejected?"

LIC is diversifying its investments in favour of semi-Government agencies responsible for the developing of infrastructure: State Electricity Boards, housing boards and municipalities. At the same time LIC also proposes to give larger assistance to medium-scale units which have outgrown their small-scale status and are thus no longer eligible for support from the specialised agencies.

A Policy for Every Season?

GOVERNMENT's short-term vacillations with regard to sugar encourage manufacturers to exert non-economic pressures on policy-making. In May, total monthly quota was stepped up sharply, from around 3.50 lakh tonnes to 5 lakh tonnes. When sugar prices touched the low level of Rs 164 per bag, the Centre, unnerved by the falling prices with their implications for sugar production in the following season and by the States not lifting their levy sugar allotments, reduced the quota to 3.28 lakh tonnes in June and further to 3 lakh tonnes in July. It also announced, a further rebate in excise duty, of Rs 8 per bag, on production between July and September in excess of the production of the corresponding months in the previous year. In addition, it took two other steps to strengthen the market: (1) extension of the despatch period, from 30 to 45 days, and (2) removal of the restrictions on inter-State movements of free market sugar. Moreover, liberal credit reduced the pressure on the industry to sell.

Sugar prices started to move up. In the ex-mill section, by the middle of August, prices improved by about Rs 15 per bag to Rs 178.25 for the D-30 variety. The anachronism of a rise in sugar price in the midst of plenty earned sharp criticism in the Press and in Parliament. As if in response to this, the monthly quota released on August 21 was raised by one lakh tonnes, to

four lakh tonnes. This resulted in a sharp fall of Rs 10 per bag.

Prices rose thereafter because the Centre raised the tariff value by Rs 5, to Rs 125. Prices in Maharashtra, particularly, were perked up by Maharashtra Government's announcement that, in September, the sugar ration in the city would be reduced from 2.50 kg to 2 kg per head. At the same time, the industry must have begun to feel that its pressure on Government to build up buffer stocks and to export as much as possible would yield results. This anticipation and the approach of the festival months have emboldened mills to go slow in pressing sales.

Meanwhile, there has emerged a strange slackness in the release of statistics of production, offtake, etc, by the industry, without earning any rebuke from Government. Production and offtake figures for July are not yet available. Indeed, it seems possible that, given official ambivalence on sugar and official readiness to be indifferent to non-release of information, the industry may succeed in maintaining prices at the present improved level or even at a somewhat higher level during September and October. How divided among themselves the sugar units of the various regions are, is seen in the fact that a section of the industry is demanding total decontrol and is willing to face a further fall in prices. If Government has refused to acquiesce in this apparently rational demand, it must be because the sugar policy today is dominated by political rather than economic considerations.

Clamouring for an Inquiry

INDUSTRY is always chary about any inquiry into its affairs, particularly when it relates to its costing and pricing system — understandably, since more often than not, such an inquiry results in a reduction in prices. That explains the nervousness which has seized the man-made fibre industry which is facing an inquiry by the Tariff Commission. It is a bit unusual, therefore, to find the wagon-building industry clamouring for an independent price inquiry. Early last month representatives of five major wagon-builders had, at their meeting with the Union Railway Minister and the Railway Board Chairman, repeated their demand for an inquiry, preferably by the Tariff Commission or the Bureau of Industrial Costs and Prices.

The reason for this clamour is not difficult to see. Wagon builders have claimed that they have been receiving "uneconomic prices" from their main buyer, the railways; orders have at times been accepted on a no-profit basis

or even at a loss just in order to utilise capacity — capacity utilisation of the 16 units in the industry fell from 86.3 per cent in 1965 to 43.7 per cent in 1967 and further to 41.1 per cent in 1968 before it revived to 52.6 per cent in 1969. The Railway Board's order for 11,181 four-wheeler wagons last month does not seem to have infused much cheer into the industry. Included in this order are 2,800 'CR' wagons, which spokesmen of the industry regard as a "nightmare". The Chairman of Jessop, Ashok Chanda, a former Comptroller and Auditor-General and Financial Adviser to the Railway Board, said in a recent statement that his Company had actually surrendered orders for such wagons.

The industry has been troubled also by the delays in the placing of orders by the railways. The latest order, for instance, came more than 7 months late since the earlier practice was to place orders by January. But in spite of the delay in its placing, the order has to be fulfilled as usual by end of June 1971. This compounds wagon manufacturers' problems of scarcity of raw material, particularly of flat steel products like sheets and plates, and of component parts supplied by the Railway Board, particularly wheel sets.

Wagon builders have, however, done well in foreign markets. In recent years, they have won global orders against competition from West European countries and Japan. Their foreign exchange earnings in the last three years add up to Rs 11 crores. However, export hopes are still largely pinned on the Russian wagon deal.

The Russian proposal for purchasing 54,000 wagons (later reduced to 26,000) of a special (Gandola) type, valued at Rs 600 crores came up first in early 1968. These wagons were to be used for transporting ore mined in Siberia as part of the Russian programme for development of Siberia. But when it came to working out the details, the Russians offered a ridiculously low price and also started negotiations with Italian manufacturers who too had large idle capacity. The failure of the negotiations with the Italians and the fact that Indian prices are internationally competitive appear to have now revived hopes that the deal with the Russians may after all come off.

But an inquiry into the costs of the industry with a view to determining reasonable prices are as relevant to the industry's export effort as it is to sales to the Indian railways. An independent inquiry should also go into a comparative study of the complexities of the costing system in this industry *vis-a-vis* a few other selected engineering industries.

A Little Bit of Tooth

Romesh Thapar

WHETHER it is the rather juvenile commotion over alleged 'nun-running' or the latent anti-foreign passions aroused by the naive 'BBC-bashing' or the political brinkmanship which surrounds the business of 'paying-off' the princes or the complex processes of curbing trade union blackmail on the public sector in places as far apart as Durgapur and Delhi or the sudden cornering of a number of important 'Naxals', the Government of Indira Gandhi is now reacting, over-reacting — indeed, showing a little bit of tooth. Admittedly, there is a lack of discrimination in the issues chosen, and the style needs toning up, but the new toughness gets a ready response, even a heady one...

Of course, the mood in vocal Delhi is such that there is constant harping on the 'amateurishness' of it all (particularly the handling of the BBC affair!). Then, the wait-and-see attitude on the DMK's demand for a flag for Tamil Nadu and Government's comparative silence on the Soviet Union's 'cartographic aggression' (*sic!*) are only sad confirmation to a disgruntled section of the middle class that Indira Gandhi is nowhere near a point of consistency. Yes, in this highly politicalised Capital, peripheral issues have become the proverbial straws for a large number of people who are vehement in their opposition to Indira Gandhi.

POLITICAL NIT-WITS

Over-reaction is certainly giving the impression to the world that we are political nit-wits. Our self-righteous indignation over the question of nun-running — a charge made in the not-so-innocent London *Times* and yet to be substantiated — is unlikely to be understood, for the nuns are to be trained for a useful existence and are not being condemned to a life of sin as so many thousands of their sisters in India's cities are. If, however, all this 'running' keeps us away from communalism and persuades us to take a long look at the hundreds of trained personnel leaving this country every year, we might end up wiser.

It does not need much research or probing to show that young doctors trained at considerable expense in our medical institutes are leaving this

country in large numbers enticed by little England where they, together with Pakistanis and West Indians, more or less run the health services for the white man! Our institutes of technology, put up with assistance from international organisations, are also turning out engineers for the advanced countries. At Kanpur, for instance, some forty to fifty per cent of the best products have jobs fixed for them in the USA by their professors even before they have completed their training! This example is fairly typical. We have to understand the simple fact that the advanced countries are short, very short, of trained manpower — and, by the looks of it, nuns also! Any country that does not nurture its human resources will lose them. So, maybe, we should stop shouting and get down to more basic corrections in our society.

The BBC provides another dimension to our dismal sloppiness. For years now, we have allowed all kinds of muck-rakers to present India as a wretched, miserable land. Officialdom has indeed been more responsive to the muck-rakers, with their enormous resources, than to the sensitive on the search for an understanding of a complex reality on a small budget. And no effort has been made to get Indians to project the complexity of India. The decision to wallop the BBC is inept, but we should realise that what is really under way is a developing escalation against the British. There seems no other logical angle on these developments. The Indian appears to have had his fill of the British — and the GOI is reflecting this mood. I only wish our officials would be a little more intelligent when tackling these problems, or else we will end up by being described as 'fascists'.

Intelligence is not lacking. When it comes to political manipulation over the princely purses, no chances are taken and there is a subtle ruthlessness about forgetting promises and commitments when governmental power is threatened. The abolition of the purses is suddenly separated from the compensation formula to make the passage of bills and enactments easy (allegedly by the joint pressures of

Chavan and Jagjivan Ram). In the background, there is the theory that the purses muddle and the possibility of a parliamentary debacle for the ruling party on the issue, might well spark a mid-term poll. Apparently, a dozen votes could set in motion a train of startling developments. Minister Bhanu Prakash Singh also thinks so. The unkind say that this is exactly what Indira Gandhi wants — issues to excite the electorate to vote for her.

AGED, BLUNT AND RUSTY

The new political toughness has begun to be noticed by the trade union front and a host of familiar MPs who imagine that the Almighty himself appointed them leaders of the working class. While it is true that this toughness does not emanate only from the Prime Minister, the fact remains that her recent reactions on threats to law and order have strengthened the hands of those who are becoming impatient with flabby, compromising satraps and officials. Had the men on the spot at Durgapur listened to Governor Dhavan the CP(M) would today be riding high. Indira Gandhi has yet to realise that many of her vital instruments are aged, blunt and rusty, they do immense damage to her credibility.

The GOI, through the more energetic elements in its set-up in Bengal, is beginning also to get a measure of the Naxals. It so happens that the decision to act more forcefully coincided with internal dissensions in the scattered formations of the Naxals, which rumour suggests, have been massively penetrated by informants and by a host of traditional 'bad characters' who find the Naxalite legend an ideal cover for their activities. This is a pretty serious situation for a revolution that has hardly been launched.

It is quite clear to anyone who bothers to see that Indira Gandhi is anxious to use the powers that she has gathered unto herself. The decision-making apparatus remains, unfortunately, what it used to be. Maybe, the bureaucracy is on the verge of a spring-cleaning. Then, perhaps, toughness will be coupled with hidden subtleties and nuances, with solid intelligence.

August 31

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FROM THE CHAIR

Poysha Industrial Company Limited

Extracts from the Speech of the Chairman, Mr M R Ruia

THE following are extracts from the Speech of the Chairman, Mr M R Ruia, at the 13th Annual General Meeting of Poysha Industrial Company Limited, held on August 28, 1970:

POYSHA KEEPS GROWING

Last year I expressed the hope that the Poysha group (the units at Thana, Ghaziabad and Cochin) and Kaira Can would between them effect a total sale of about Rs 6.5 to 7 crores, unless something unexpected happened. I am glad to say that the hope has been fulfilled, the total sales by Poysha going up to Rs 5.42 crores, and by Kaira Can to Rs 1.54 crores, i.e., to a total of Rs 6.96 crores in all. Including the sales (Rs 14.94 lakhs) of the wholly-owned subsidiary, Colrige, the total group sales were nearly Rs 7.11 crores. We should, in the normal course of things, top Rs 8 crores this year and possibly go a little higher.

Our gross profits for the year were Rs 50.32 lakhs, as against Rs 35.67 lakhs last year. The net profits, after providing for depreciation, development rebate reserve, managing agents' commission, and provision for taxation, amounted to Rs 27.66 lakhs, as against Rs 15.85 lakhs last year. The Company has, therefore, maintained the tempo of its progress during the year under review, in spite of increasing competition.

SHORTAGE OF RAW MATERIAL

The position of the main raw material, tinplate, continues to be somewhat difficult. Hindustan Steel have not been able to keep to their schedule over a period of several months. Various explanations have been given, but the fact remains that there is a serious backlog of our orders now pending with them, as well as with the Tinplate Company of India. In fact, the position has been so unsatisfactory that it has become somewhat unsafe to place continued reliance upon their promises of supplies during the course of a quarter, a half-year, or a whole year. As the industry cannot survive without an adequate supply of tinplate, the Government of India have been forced recently to allow the import of a large quantity of suitable tinplate for its needs, in view of the indigenous manufacturers'

proved inability to effect satisfactory supplies. This is not a happy state of affairs and we feel that the production of Hindustan Steel in the Rourkela factory should be rationalised and systematised to enable it to give the full service it can obviously give. The existing hand-to-mouth situation in regard to tinplate has resulted in a strange situation under which, while very high inventories have to be kept at a considerable cost, there is a chronic shortage of the correct sizes to meet day-to-day requirements.

Recent discussions with Hindustan Steel, however, have given us some hope that the situation in Rourkela is on the road to tangible improvement. We trust this hope will be realised.

RISE IN COST OF TINPLATE

There seems to be no end to the continuous rise in the cost of tinplate, which constitutes anything from 60 to 80 per cent of the total cost of the tin container. There has been a further substantial rise during the year under review; and to cap it all, an excise duty of 10 per cent *ad valorem* has been recently imposed on the finished can. It almost looks as if there is a determined attempt on the part of the authorities to price the tin can out of commercial existence. Apparently, the idea underlying the new excise duty is that a metal can is more or less a luxury article and deserves to be heavily taxed. I can only express my dismay at this sort of thinking, when the well-known fact is that about 30 per cent of the total food-stuffs in the country goes to waste every year, and the only way to prevent such criminal waste is to give every possible encouragement to the Food Preservation industry and can as much of the food as possible, which would otherwise go to waste. I should have thought that this would have been one of the first priorities in the problem of maintaining adequate food-supplies, apart from large-scale irrigation, the use of fertilisers, etc. Apparently, however, the prevalent ideology does not bother about the facts, and the most promising means of food preservation, namely, the tin can, is being taxed both on its prime raw material and on itself as a finished

product, not to mention the additional excise on the canned product, too.

HEAVY TAXATION

The tin can of today is a sophisticated product, it requires high-precision equipment, and it is required to pass stringent tests before it can be allowed to serve as a packaging for processed foods. In the general conditions prevailing in the country today, the tin can is a vital means of food preservation, under hygienic conditions and for long periods, not only in towns and cities but in the remotest rural areas. It is, in fact, the standard container for the rural store-keeper and serves various other purposes, besides food preservation. I would, therefore, most earnestly urge the Government to reconsider the imposition of this sort of heavy excise duty on the finished can, on the top of the steadily increasing levies being imposed on its primary raw material, namely, tinplate. I would suggest that, as a matter of food policy, a real fillip should be given to the growth of the can-manufacturing and food-preservation industries by abolishing the new excise duty and reducing the current levy on indigenous tinplate. I would again emphasise that food preservation is definitely not a luxury industry, as is erroneously imagined. We have indeed gone a long way from the Government's subsidy on OTS tinplate four or five years ago to triple taxation on tinplate, tin containers and the canned products.

The packaging industry, with the exception of small-scale manufacturers of 4-gallon tins, is definitely not a small-scale industry, as the Government seems to think. The importance of adequate customer service, especially in the case of open top cans for packing food, and of complete technical service, is not well understood. The size of the operation makes a real difference to the consumer, both internal and foreign, and it would be mistaken policy to inhibit the further growth of can-manufacturing units beyond a certain comparatively low level.

FOREIGN COLLABORATION

I am glad to report that our efforts to arrange a technical collaboration

agreement with American Can Company are bearing fruit. We have received a Letter of Intent from the Government, agreeing to the broad terms of the proposed collaboration, and we are now in the process of clarifying certain details, before concluding the matter.

Exports

I should like to say a few words regarding exports, to which we have been making general references in previous reports. I am glad to produce some concrete figures now for your information. From about the end of August, 1969, to the end of March, 1970, our ex-

ports amounted to a little over Rs 7 lakhs; from 1st April, 1970, up to now, they have increased by a further Rs 8½ lakhs; and the value of the orders in hand is slightly above Rs 37½ lakhs. Our existing exports are to the Middle East, in the form both of printed tinplate and of manufactured containers. We hope to increase, fairly rapidly, the volume and the range of these exports. These exports are, of course, in addition to the large-scale indirect exports in the shape of food and other goods packed in our containers, the value of which runs to several crores a year.

ciating itself with the underwriting of fresh capital issues by large companies. These reports have been contradicted by the LIC chairman. T A Pai told newsmen the other day that the Corporation was not contemplating to withdraw from the investment market and that it would continue to take interest within the broad-frame of national interests though emphasis might shift according to the availability of funds and priority needs. He said that the Corporation would continue to underwrite every 'worthwhile' issue.

Considerable concern has also been expressed in market circles over the Reserve Bank's directive that advances over Rs 50,000 against the security of shares should not be made on the basis of blank transfers but should be made only if the shares are transferred in the lending bank's name. In the case of shares lodged by a share-broker as security against advances, the provisions of the directive will apply only if the shares are held for a period longer than three months. This is intended to enable share-brokers to carry on their normal business without difficulty. The main idea of acquiring voting rights of shares pledged with banks is to prevent cornering of shares with the finance provided by banks. But fears have been expressed that the use of voting rights of corporate shares by banks and public sector financial institutions will create uncertainty in the minds of managements planning long-term programmes.

The stock market is in good temper but it appears that the bullish fervour is beginning to cool off. In view of the fact that the market has already had a spectacular rise, it could be expected to take a pause any time to consolidate its position. But in a situation characterised by acute shortage of floating stocks, the market can behave in the most unpredictable manner.

Agitation Must End

THE Cotton Corporation of India, which is to be manned by a board of 12 directors representing growers, mills, trade, co-operative societies, MPs and officials of Union Ministries, is getting ready to take up its tough assignment. A start is being made with six directors and the first board meeting is expected to be held shortly. It will, however, take time before the Corporation is able to make its influence felt. As repeatedly pointed out by the Union Minister of State for Foreign Trade, Government does not contemplate any

immediate take-over of internal trade. Perhaps for a long time to come, the Corporation's activities will be confined to handling of imports and effecting purchases of domestic cotton for the Government-run mills. And even though it had been decided to take over the entire import trade from the beginning of the new season, Sudanese cotton has been allowed to be imported through private channels as the Corporation has still to set up adequate machinery to undertake import business.

With the take-over sword hanging over it, official assurances discounting chances of internal trade being taken over in the near future have failed to appease the trade which continues to be in an agitated mood. The vice-chairman of the *ad hoc* committee of the All-India Cotton Federation has declared that the trade will continue the agitation till its demands are met. But it would be foolish to expect that the trade's demands will ever be met — not by Indira Gandhi's Government anyway. Can Government be expected to revoke its decision to canalise cotton imports? Parrot-like repetition of demands will achieve nothing.

One does not expect the trade to execute its own death warrant, but the virulent campaign it is carrying on against Government over the take-over issue might only hasten the take-over which it is seeking to avert. The trade must realise its limitations in waging a 'war' against Government. It cannot dictate the terms on which it will extend co-operation to the Cotton Corporation which has been entrusted with the implementation of Government's take-over plans. It should endeavour to make the best of a bad bargain.

The cotton season which has ended with August was a very difficult one. Despite substantially larger supply of imported fibre, the overall supply position continued to be very tight because of expanded demand due to increased spindleage activity and improved conditions in the cloth and yarn markets. Cotton prices rose to new all-time high levels. The carryover stock (indigenous and imported cotton) has been run down to around 17 lakh bales against 19.46 lakh bales at the end of last season. Prospects for the new crop are considered to be quite promising because of the very satisfactory weather conditions so far. But many critical weeks still lie ahead. Since there has been no breakthrough in cotton yet, production even under ideal weather conditions will fall far short of the country's needs. If cotton prices are not

to be allowed to seek new high levels, thereby further undermining the textile industry's competitive strength in world markets, it will be necessary to enforce strict discipline at all levels.

Emphasis Shifts

THE spot quotation for groundnut oil in Bombay recorded a new all-time high of Rs 5.625 (per tonne) on August 28. This imparted further strength to the entire market. Linseed September and castor September were bid up to Rs 180 and Rs 149.87 (per quintal) respectively; distant positions (new crop) also hardened in sympathy, with linseed April rising to Rs 145 and castor April to Rs 123.87. Prices have registered an all-round setback from these high levels and early gains have been completely erased. But more important than the setback in prices is the turn in sentiment.

Discussions with important marketmen point to a sudden shift in emphasis from current acute shortage to improved prospective supply. Bullish fervour has cooled off quite a bit. While it would be rash to jump to conclusions so soon, one need not feel surprised if last week's highs are not seen again for several months. The view is widely shared that given a good spell of sunshine and a few showers thereafter in the major groundnut producing areas, the crop might well exceed 65 lakh tonnes (in shells) against the previous best harvest of 58.9 lakh tonnes (in 1964-65). In any case, a record crop is now assured.

Prospects of a bumper crop have encouraged the Gujarat Government not to impose a levy on groundnut oil during the 1970-71 season. The decision will be welcomed not only by the groundnut producers and oil mills in Gujarat but also by the various consuming centres which depend mainly on Gujarat for their normal supplies. In view of the bright crop prospects, New Delhi would do well to step up the supply of soyabean oil to the vanaspati industry in September and October in order to relieve the pressure on scarce groundnut oil. The supply of soyabean oil can be reduced and even discontinued when new crop groundnut oil becomes available in plenty.

Faced with the disturbing prospect of huge losses on outstanding commitments, arising from the enhanced freight rate, effective from the beginning of October, the Groundnut Extractions Export Development Association,

has decided not to permit any shipment of groundnut extractions to the UK after October 1, unless the Karmahom Conference withdraws the proposed increase of \$5 per tonne unconditionally. One cannot blame GEEDA for resorting to such a drastic step. In fact, there was no other course left to it. Interests of shippers have to be fully protected. GEEDA could not have possibly taken such a step without official blessings. Government alone can bail out the shippers through the operation of the *force majeure* clause. All export contracts are subject to the issue of export licences by Government. It would be unfortunate if high freight were to be allowed to hamper export of groundnut extractions which are a very valuable foreign exchange earner. New Delhi will have to take appropriate measures to ensure that the competitive position of Indian oilcakes is not seriously undermined. In view of the bumper groundnut crop, it should be possible to set a new record in export of groundnut extractions if Government adopts a helpful attitude.

Gwalior Rayon

GWALIOR Rayon has secured industrial licence for its caustic soda project to be located at Nagda and is placing orders for the plant and machinery. Construction of the rayon grade pulp project is in full swing. The factory is expected to be ready for production by the end of 1971 or early 1972. The rayon pulp industry having been recently removed from the de-licensed industries, the company has applied for a 'carry-on-business' licence. Work on modernisation of Bhiwani Textile Mills' machinery is expected to be completed this year. The company has completed eucalyptus plantation in about 7,500 acres of forest land in Nilambur as part of its phased programme of plantation over 30,000 acres. A total expenditure of Rs 1.06 crores has been incurred so far on acquisition of land and plantation. During the year ended March 1970, the company produced 60,940 tonnes of rayon grade pulp and 57,039 tonnes of staple fibre. Sales increased from Rs 49.96 crores to Rs 53.65 crores, and gross profit from Rs 8.01 crores to Rs 9.85 crores. Net profit amounted to Rs 3.33 crores (Rs 2.69 crores) which covered the 18 per cent distribution 3.1 times and gave a return of 12 per cent on the total funds employed in business.

MARKETS

In Search of a Haven

Nishtar

THE stock market has scaled a new peak but it has not been easy going this week. It had to wend its way through a slippery path and it experienced considerable difficulty in holding its ground. Though the market managed to strike a new high at the weekend, its overall behaviour gave one the impression that it was perhaps now in search of some safe place where it could pitch camp to rest its weary limbs. It has had an almost non-stop run for three weeks and it has covered a distance — and that too on very high altitudes — which could tire out any market. The recent spectacular advance has made the market's position rather suspect.

That the sober and serious-minded chairman of the Bombay Stock Exchange should have deemed it necessary to advise members not to take undue advantage of the new system of 10-day settlement and to keep their business within limits suggests that speculative activity has perhaps assumed somewhat undesirable proportions. Caution becomes all the more necessary when the market authorities have permitted trading for differences despite the continuing ban on forward trading. It is astonishing that Government should tolerate and encourage this kind of illicit forward trading. Could it be that Government thinks that official permission to resume forward trading would be less expedient politically? But how long can Government evade the issue? It has been

'considering' the Anjaria Committee's report on forward trading for a long while and it has often assured the stock exchange authorities about an 'early' decision. The delay is irritating though the stock exchange community is no longer much bothered on that score as the 10-day clearing device provides greater freedom to speculate — and without margins.

While the market wound up the week at a new high, trading during the major part of the short working week was characterised by a hesitant tendency. Excepting certain selected counters which continued to display marked strength on sustained support based on special considerations, equity prices generally tended to drift lower under light but persistent pressure of corrective profit-taking. Corporate news, though less plentiful, was quite pleasing. But Dalal Street which sets the pace for other markets felt sore at New Delhi's rejection of National Rayon's application for a one-for-four bonus issue which gave rise to all kind of gossip. But under the new guidelines, no company can be permitted more than two bonus issues within a period of five years and National Rayon has already been granted two sanctions.

Market sentiment was also affected by unconfirmed reports that with a view to extending greater help for improving civic amenities and housing, the Life Insurance Corporation was planning a phased pull-out from the capital market and that it would not be asso-

Accent on Efficiency

Hansavivek

TATA HYDEL group companies, in collaboration with Elephanta India — a company representing exporters and shippers of chemicals — have formed a new company called Chemical Terminal Trombay with the object of installing storage tanks on a part of the companies' ash disposal area at Trombay and laying of a pipeline connecting the tanks with the Bombay Port Trust pier at Pir Pau. The tanks would be used for storing liquid chemicals and petroleum products in the course of import into, and export out of, India. Tata participation in the capital of the new company is 51 per cent and that of Elephanta, 49 per cent. Work on the project has started and is expected to be completed early next year. By undertaking this joint venture, the Tata hydel group companies have put to profitable use a plot of marshy land which they have themselves reclaimed by dumping ash from the Trombay generating station.

Consequent on modernisation and rehabilitation of the thermal station at Trombay, generation was maintained at a very high level of plant capability, and a record energy output of 2,000 MU was achieved during the year to March 1970. Having overcome to a large extent the initial difficulties on the inter-connections between the Gujarat and Maharashtra power systems, the companies expect that similar inter-connections will be established soon with MP and Mysore. The modern load despatch centre at Trombay played an important role in monitoring and guiding the integrated operation of the enlarged Western India power grid. The digital computer equipment was commissioned at the centre last May. The companies have a phased programme to extend modernisation to other areas of the power system's operation. Also, plans for better controls of hydro and thermal stations are being evolved.

Commenting on the energy supply position, Naval H Tata, chairman of the three companies in the group, estimates the energy deficit in 1970-71 for the Maharashtra power system at about 4 per cent — or around 200 million units. He expects this deficit to be covered by energy assistance from the two 140 MW units of the Nasik thermal station of the State Electricity

Board, now in an advanced stage of construction. With the availability of power from Nasik, the energy position is expected to be satisfactory till 1972-73, but thereafter it will depend on the availability of power from MSEB's proposed Koradi thermal station near Nagpur and the installation of adequate transmission facilities to the Western Maharashtra system.

GUJARAT STATE FERTILISERS has entered into contracts for process licence, knowhow, basic engineering, technical assistance, supply of equipment and engineering for its caprolactum plant with Inventa of Switzerland, Technip of France, and Engineers India. Mechanical completion of the plant is expected to be achieved by December 1972. Earlier, the company had signed a contract for building the plant with Hitachi of Japan, but alternative arrangements had to be made as the foreign exchange arrangements could not be concluded between Governments of India and Japan. A project for recovery of fluorine in the phosphoric acid plant is under preparation, and negotiations for sale of aluminium silico-fluoride are expected to be completed shortly. Arrangements for disposal of effluent are also being formulated in consultation with the State Government. The schedules for commissioning of the expansion urea and expansion ammonia plants could not be adhered to owing to certain unavoidable circumstances. The commissioning and per-

formance guarantee tests of the expansion urea plant were carried with ammonia and carbon dioxide from the first ammonia plant, and the expansion urea plant was accepted by the company from the contractor in December 1969. The plant has proved capable of producing consistently at over 100 per cent. Trials of turbo-compressor revealed that its performance was below its duty specifications in respect of pressure and volume of air delivery. The contractor had to defer guarantee test-runs until the turbo-compressor could be replaced by one capable of doing the duty specified for operating the plant at 100 per cent of its design capacity.

In spite of this setback, GSFC produced 2,95,246 tonnes of fertiliser during its eighth year ended March 31, 1969, against 2,24,137 tonnes in the previous year. Helped by the timely promotion and extension programmes and services, sales increased from 2,27,124 tonnes to 3,11,047 tonnes and, in terms of money, they were up from Rs 16.78 crores to Rs 24.49 crores. Gross profit advanced from Rs 5.42 crores to Rs 7.48 crores. Owing to larger provisions for depreciation and interest charges and over Rs 22 lakhs written-off preliminary expenses, net profit came to Rs 2.30 crores (Rs 2.17 crores). Out of this, the entire accumulated dividend on preference shares for 5 years would absorb Rs 109 lakhs and the recommended eight per cent maiden distribution on equity capital Rs 72 lakhs. On this basis, the latter finds a cover of 1.4 times. However, net return on the total funds employed in business worked out at less than four per cent.

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NEW DELHI

How Not to Look for Minerals

EVEN as it struggles to explain what purpose has been served by the pompously-termed Operation Hard Rock, the Ministry of Mines and Metals has signed an agreement with a French agency for yet another airborne mineral survey. Operation Hard Rock was financed by US AID credits and carried out by an American company. The funds for it were diverted from American assistance earlier earmarked for developing the Khetri copper mines in Rajasthan and setting up a large copper smelting complex and related facilities. The American authorities later became lukewarm about the Khetri project and, instead of helping to exploit the copper reserves already discovered by the Geological Survey of India and the Indian Bureau of Mines, sold to the Department of Mines and Metals the idea of launching airborne surveys to locate new deposits of base metals. US AID funds were offered for the purpose and it was claimed that the airborne surveys would be twice as quick as the conventional work being carried out by Indian agencies.

RANK INEFFICIENCY

Admittedly, the progress of the Khetri project has been extremely slow — initially because of prolonged negotiations for foreign assistance and subsequently because of rank inefficiency. As a result, the project is not likely to even go into production, let alone achieve rated capacity production, before 1974. The dismal record of Khetri strengthened the case of the protagonists of Operation Hard Rock and considerable enthusiasm and excitement was whipped up over the venture. But four years after its launching, the authorities are still making laboured attempts to show that it has produced results which could not have been achieved by Indian agencies.

And now, once again, the French are being brought in to launch another airborne survey on the lines of Operation Hard Rock, though the scope of the French project will be somewhat restricted. The Geological Survey of India has already established the existence of sizeable copper (and nickel) deposits near Tatanagar in Bihar. In any sensible scheme of priorities, ex-

ploitation of these deposits should receive first attention. This can be done by committing the necessary funds for the Rakha copper project and expediting the work on it. In fact, all along Rakha should have been taken up before Khetri and would have yielded quicker returns. But while Rakha is hardly getting any attention, another airborne survey by a foreign agency is being pushed by officials of the Ministry with much gusto.

LESS PRODUCTIVE

This is not to say that airborne surveys should not be undertaken at all; they can help to identify locations for intensive investigation for mineral resources. But these surveys cannot have the same significance in our country as they might have in countries like Canada, USA or USSR. They are very useful where the terrain is inaccessible, where climatic conditions dictate short working seasons and where employment of human labour on comparatively slow ground-level investigation and mapping is costly. None of these considerations is particularly relevant here. The Geological Survey of India has been in existence for over a century and it has done extensive geological work and has mapped out a large part of the country. This is one reason why, leaving aside the general question of their desirability or otherwise, in actual practice projects like Operation Hard Rock turn out to be far less productive than expected at the time of their launching.

Operation Hard Rock covered an area of 90,000 sq kilometres in Andhra Pradesh, Rajasthan and Bihar-Bengal. At the time of its launching in July 1967, it was given out that within a matter of two years the work of airborne survey, delineation of anomalies, ground follow-up and even exploration in promising areas so that actual mining work would be ready to start there will all be completed. This commitment was part of the terms of the contract with the American company, Parsons, which was entrusted with the job. However, achievement has fallen far short of these targets. To date not a single deposit has been found and developed to a point where actual mining has become a feasible

proposition. The airborne survey has, it is claimed, indicated over 3,000 anomalies out of which about 300, the American company thought, were of some promise on which ground follow-up could be undertaken.

The arrangements with Parsons were such that they were invested with the entire responsibility for all aspects of the project including ground-work geology and drilling — areas in which Indian agencies, most important among them being Geological Survey of India, are as proficient as any foreign agency. Ignoring protests, a new department called the Airborne Mineral Survey and Exploration Unit was set up under the Mines and Metals Ministry so that Operation Hard Rock was made totally self-sufficient and also, in the process, put beyond the scrutiny and appraisal of competent Indian agencies. Geological Survey of India supplied geophysicists, geologists and drillers as well as copies of geological maps and reports to Parsons who, incidentally, were contractors for employing another American company to do the actual aerial survey. In its turn, however, GSI was not given copies of the maps or reports concerning the progress of Operation Hard Rock. As a result, many of the more promising anomalies supposed to have been discovered by Operation Hard Rock for ground exploration were those which were already known to and had been mapped out by Indian agencies.

DESPITE DEMANDS

It is hardly surprising, then, that Operation Hard Rock has evoked strong criticism from Indian geologists. Some of the criticism was reflected in a recent meeting of the Consultative Committee of Parliament attached to the Mines and Metals Ministry. There were demands at the Committee meeting that similar arrangements should not be repeated with other foreign agencies. Yet the Ministry has gone ahead and signed an agreement with the French for another airborne survey to cover an area of 99,000 sq kilometres in Mysore, Gujarat, Rajasthan and Madhya Pradesh. The only difference will be that unlike Operation Hard Rock, the French project will be confined to airborne survey work alone and will not include ground follow-up.

Leaving aside the question of the desirability of the project as a whole,

what is astonishing in this case is that in spite of all the experience gained by Government from Operation Hard Rock, the French are reported to have managed to wheedle out a very much higher rate of payment for their work than the Americans. The cost of integrated geophysical surveys for base metals as well as magnetic ores and radioactive minerals employing, simultaneously, electromagnetic, magnetic and scintillometric techniques is quoted by the most reputed firms at about \$20 per line mile. Aero Surveys, the American firm which did this work in Operation Hard Rock, quoted a slightly lower rate. The rate, however, falls steeply if the area to be surveyed is sufficiently large. For instance, Aero Surveys was willing to charge as low as \$5 per line mile if the area to be flown was a minimum of 1,20,000 line miles. An intriguing part of the aerial surveys that we have commissioned has been that in the case of Operation Hard Rock or the projected schemes with French and Russian assistance, Government has made no attempt to take advantage of the lower rates for surveying larger areas. For the French project, once again, the area to be surveyed is kept below the stipulated minimum for the lower rate. The same is true of the contemplated Russian project.

The French actually quoted a much higher rate — about \$16 per line kilometre as against \$11.11 charged by Aero Surveys for Operation Hard Rock. It is not known what rate has been finally agreed to. The higher rate of payment to the French was sought to be defended by those who negotiated the deal on the ground that the company's techniques were more advanced though, in fact, no such superiority exists. The real position will become clear only when and if the terms of the contract are made public. But it is already known that the French project will represent no advance whatever on what has already been done by the Americans so that, even if those who negotiated the contract were unable or willing to secure a steeply lower rate by more careful planning of the area to be surveyed, there is at least no justification for a higher rate. In the case of the Russian project, it is known that the Russians are in a position to undertake only magnetometric surveys which have extremely restricted value in this kind of work.

In making these arrangements, the Ministry appears eager to assume that the necessary expertise does not exist within the country. This assumption is, however, strongly refuted by compe-

tent technical agencies and industrial experts. The assumption is becoming even less tenable now that Geological Survey of India is acquiring, under the Canadian aid programme, the necessary equipment for airborne surveys. Besides GSI, National Geophysical Research Institute at Hyderabad has also independently demonstrated its ability to undertake aerial surveys and has been urging Government that it should be allowed to get into this work on a bigger scale. The NGRI has developed the necessary instrumentation, though its instruments and survey methods may

not have yet attained the degree of sophistication which is available from some advanced countries. It is time, therefore, that the whole experience of Operation Hard Rock is carefully evaluated so that to the extent possible reliance is placed on indigenous expertise and capability in such ventures in future. In any case, the special department in the Ministry created for Operation Hard Rock should be wound up and GSI should be entrusted with the responsibility of planning and developing mineral surveys and exploration — with or without foreign aid.

Not without Legacy

(From a Special Correspondent)

KANU Sanyal, legendary figure of the 1967 Naxalbari uprising and kingpin of the CPI(M-L) leadership, is once again behind bars. Along with Kadam Mullick, Khodam Mullick, and 27 others, he was arrested in a dramatic pre-dawn swoop, conducted simultaneously on two Naxalite strongholds near Singikhora tea estate under Phansidewa police station, about three miles from Bagdogra airport. Soon afterwards, the arrested were sent to Darjeeling Jail under heavy police escort. Two years earlier, Sanyal had been arrested on October 31, 1968, in connection with the Naxalbari movement, at Birsingh Jote also under Phansidewa police station approximately in the same area from where he was taken this time. He was released from Darjeeling Jail on April 8 last year. He had been an under-trial prisoner when the second UF Government decided to set free all political prisoners in West Bengal.

Since then, according to certain police reports, Sanyal visited Chinese-occupied Tibet, using the unguarded passes of Chiabhanjag (Sikkim-Nepal border) and Walungchunggol (Nepal-Tibet border) for talks with Chinese officials. On his return via Kathmandu-Birgunj, he toured Bihar, Assam and Tripura to strengthen the party's foundations in these areas. His last public appearance was on May Day 1969 when he announced the foundation of the CPI(M-L) at a meeting on a Calcutta maidan. Soon afterwards, he went underground. Though unconfirmed reports at times located him in Nepal, Assam and Bihar, the West Bengal police suspected that he had always been in this area.

Among the other top Naxalites of the area who are still at large are Jangal Santhal, Mujibur Rahman, Panchhannan Sarkar, and Khokhan Majumdar.

But Kanu Sanyal has been the real live-wire of the organisation. Although Charu Majumdar is Chairman of the party, Kanu Sanyal has been the chief organiser of the party's underground machinery in Bihar, North Bengal, Assam and Tripura. He is the third top Naxalite leader to be arrested in Bengal in last one month, the other two being M Appalasuri and Nagabhushan Patnaik, both from Andhra Pradesh.

Kanu Sanyal shot into fame with the peasant rebellion in the Naxalbari belt, in 1967, which he had largely organised. Now in his mid-forties, Sanyal was the undisputed leader of the Naxalbari movement organised against the feudal infrastructure entrenched deep in north Bengal. A rare activist, from the educated intelligentsia, choosing to work among the semi-literate and illiterate landless and poor peasantry, Kanu Sanyal is noted for his contempt for the vacillating middle class. He has been an ardent advocate of armed struggle for emancipation of the rural areas. He has worked for almost two decades since 1951 in Naxalbari, among Adivasis and backward tribal peasants. The local kisan sabha under his leadership also identifies him thus. Educated at the Kurseong English School and at the Jalpaiguri College, Kanu Sanyal in his early student life was strongly influenced by Netaji Subhas Chandra Bose. His revolutionary ardour later took him to the Communist party. For participating in anti-Congress demonstrations and for waving the black flag at B C Roy, the Chief Minister of West Bengal, when he was visiting Jalpaiguri, Kanu Sanyal was expelled from college. He then became a full-time worker of the Communist party. As leader of the rickshaw pullers' union of Siliguri, he organised a successful

strike in 1950. As though it were a foreshadowing of a similar happening 17 years later in connection with Naxalbari, the success of that strike invited wrath — not appreciation — from the Communist party leaders of the area. Sanyal was transferred to Naxalbari village to organise the kisan sabha there. This proved to be a great opportunity for Kanu Sanyal. Far removed from the showy life and legislative calculations of the city, he lived in this tribal village, identifying himself with the local tribals and peasants, eating their food and wearing clothes like theirs. It was during this period that he came into contact with Charu Majumdar, an ex-zamindar and now chairman of the CPI(M-L). Since then, he has always been under Majumdar's spell. Majumdar, on his part, has always functioned from his small Siliguri cottage on Hill Cart Road, half of which once belonged to his family. Kanu Sanyal has been regarded, even by those opposed to violent methods, as a misguided but remarkable peasant leader. He has made a deep impression on Gandhian workers too who have

ANDHRA

Nothing Succeeds like Success

THE success of the ruling Congress party in Andhra Pradesh in securing the election of its nominees to the chairmanship of 20 Zilla Parishads is in large part a personal triumph for Brahmananda Reddi. Among the Parishads which have gone to his nominees, are nine from the Telengana districts. Besides testifying to Reddi's competence as party manager, this may also indicate that the tide may still favour him in meeting the challenge of the Telengana separatists.

It is interesting that the ruling Congress candidates' success has come in the wake of claims by separatists, whether or not they be members of the Telengana Praja Samithi, that a majority of those elected presidents of the Panchayat Samithi, the middle-tier Panchayati Raj agency, are separatists. The claim was partially conceded even by the ruling Congress party leaders. But now the elections of chairmen of the Zilla Parishads questions this premise.

No doubt, a factor that favoured the integrationists in the Zilla Parishad chairmen's elections was the provision in the Andhra Panchayati Samithi and Zilla Parishad Act that some members of the Parishads may be co-opted to represent the minorities and the weaker interests and that MLAs, MLCs and MPs may be made ex-officio members

been to see him in his hide-out, even at the height of the Naxalbari movement.

How then, does Sanyal's arrest leave the CPI(M-L)'s grassroots movement? According to some political observers differences had of late arisen between Kanu Sanyal and Charu Majumdar. But there is no direct evidence of this, besides some notes in the diary of Appalasuri. Kanu Sanyal had arrived in the Phansidewa area only a day before he was arrested; he had come from Taplejung, East Nepal, where Charu Majumdar is currently convalescing. It has been hinted that top-level betrayal, from within his own group, alone could have precipitated his arrest. If this is true, it signifies schisms within the movement, and Sanyal's arrest augurs ill for CPI(M-L). Yet Kanu Sanyal has been a vigorous and popular leader. His arrest leaves his party leaderless, but not cadreless. He has done a remarkable job of organising a solid network in the north-east, creating a favourable climate for the change he envisages, and politicising a neglected countryside.

ed largely to the success of Congress (R)'s candidates. The election of Zilla Parishad chairmen is indirect — the electorate consisting of Panchayat Samithi Presidents and the co-opted members and members of the Legislature and Parliament. It is relatively easy to 'buy off' these few electors by various direct and indirect inducements. Money and political bribery have become accepted techniques in the elections to the different levels of the Panchayati Raj set-up.

Nevertheless, the blow to the separatists' morale rendered by the rout of Praja Samithi separatist candidates even in the Telengana districts cannot be underestimated. The Telengana Praja Samithi's claim that, the demand for a separate Telengana has the support of a large proportion of the Telengana population can not really hold water now. Further, the people elected to the Panchayati Raj set-up in Andhra Pradesh now will continue for the next five years, during which time the separatist cause has little chance of making headway — even if it is made an issue in 1972's general election. For, it is known that Zilla Parishad chairmen and their henchmen at various levels, espousing integration, would exert themselves to defeat the advocates of separatism.

While the political implications of the Panchayati Raj elections seem thus clear, the larger question remains. How do the diverse unsavoury developments and manoeuvrings before and during the elections to the Panchayati Raj bodies reflect on the operation of the system? Can these events be taken as a triumph for rural democracy? Can they be taken as another index of the political awakening of the rural population in the State? Do they bode well for the progress of rural development work, and for the welfare of the rural masses? Or do they underscore the points of weakness in the so-called rural democracy of which the Panchayati Raj system is the formal and institutional framework?

At a get-together of the elected chairmen of Zilla Parishads, to celebrate the Congress (R) victory, Brahmananda Reddi talked of the importance of implementing the rural housing programme for the weaker sections, for which an appropriation of Rs 1.5 crores has been made by the State Government. He stressed that, their performance would be judged by results. In the coming months, when almost all activity in the districts will be geared progressively to the general elections that are only 18 months away, there may be hope, of an earnest effort towards such implementation if only in the party politicians' self-interest.

WEST ASIA

A New Recognition

A NEW commando group, 'Al Ansar' or 'the Partisan', has been formed, and it has applied for recognition to the Unified Command of the Arab commando groups. Already there are 10 Fedayeen organisations that are operating in the area. The most important of these is Al Fatah, headed by Yasser Arafat, and the Popular Front for the Liberation of Palestine (PFLP), whose leader is George Habbash, at one time a practising medical doctor. The significance of the new commando group, Al Ansar, lies in the fact that it is composed entirely of members of the communist parties of Syria, Iraq, Jordan and Lebanon.

So far, there has been no response from the Unified Command. Only George Habbash has come out openly in their favour, because they are a "revolutionary, progressive, anti-imperialist and anti-Zionist force". But Habbash also feels that "they have to prove themselves in action against Israel, for then their position will be clarified during the practice of combat action".

This condition for acceptance is understandable. The position of Al Ansar needs clarification because the communist parties of the Arab countries have never played a vanguard role in the Palestinian struggle for liberation. Instead, they have stood on the sidelines in the confrontation between the Arab guerillas and Israel. They seemed not to understand the impact of Arab nationalism or the significance of the Pan-Arabism of the Baath party. They had also been outsiders during the Algerian revolution led by the FLN; and it was only after the event that the tiny Algerian communist party admitted, in a spirit of self-criticism, that it had "failed to throw itself in the military struggle at the outbreak of the rebellion and thus pursued a mistaken course". Their pat theoretical justification for their non-involvement was that the "productive forces had not been developed enough"; they had thus waited for the development of capitalism and the emergence of the proletariat so they could play their revolutionary part. So the Arab communists' attempt to get on to the handwagon now is significant for two reasons.

First, it marks a further sharpening of attitudes in the Arab world where, now, the 'People's War' based on a

strategy of guerilla warfare is considered the only way available to end the Zionist domination of Palestine — the formation of Al Ansar indicating a similar shift in the basic position of the Arab communist parties, who earlier had not accepted People's War as an instrument of change. Secondly, these communist parties, like the communist party in Israel have generally toed the line of the Soviet Union. They had been criticised by the Arab nationalist parties for their implicit acceptance of the partition of Palestine. The most that the Arab communist parties had ventured to do was to put pressure on Israel to withdraw to the pre-1967 frontier. Their position was thus identical with that of the US and the USSR, as embodied in the November 1967 Security Council Resolution. That Resolution asked only for the evacuation of the Sinai, the West Bank of Jordan, and the Golan Heights in Syria. It said nothing of the Palestinian people. Consequently, the formation of Al Ansar and the communist parties' new total commitment to People's War is a token of change also in Moscow's own attitude to the War and to the role of the communist parties in West Asia.

MAJOR COMMANDOS

The independent emergence of the Arab commandos had been regarded with suspicion by the Soviet Union. In 1968, it had branded them "hot-heads". Yet, in the following year, Kosygin and Brezhnev thought it wise to invite Arafat to Moscow. This year, a Russian journal encouragingly said: "The Palestinian Liberation Movement is freeing itself of the adventurist slogans. It is defining its goals more precisely: liberation of territories occupied by Israel, and the recognition of the Palestinian Arabs to live on their land" (*International Affairs*, Volume 1, 1970). After the 1967 Resolution, ignoring the Palestinians, the Soviet Union shifted its position to "recognising the legitimate rights of the Palestinians". Again, after Arafat's visit, it made a further shift "recognising their national rights". But notably, all these shifts have been within the framework of recognising the state of Israel — which the Arab commandos are pledged to destroy. What Arafat's visit seems to have driven home to Kosygin and Brezhnev, however, is

that they had no spokesman in the commando groups. Hitherto, the whole strategy of the Soviet Union had been directed towards forging greater links with the Arab governments, like that of the UAR and funnelling all aid through them. Its aim was to work for a political solution through a Big Four Agreement. The commando groups, by their independent actions, were an obstacle to this. While Russia spent time in fruitless negotiations, the commandos grew in size and popularity. It was they who caught the imagination of the Arab masses, not the Arab representatives in the conference rooms. So, through Al Ansar, it would seem, the Soviet Union hopes to have a spokesman right in the midst of the Unified Command.

What are the major commando groups like, that the Soviet Union sees the need to take them into account? Al Fatah and PFLP are the two major commando groups and they have both grown outside the orbit of the reactionary as well as the progressive Arab states. They grew out of the frustrations of the Palestinian people. The Arab states themselves had created, in 1964, a Palestinian Liberation Organisation (PLO) with its liberation army, the PLA. Its budget was nine million pounds sterling, the contribution being made by the Arab countries. The officer corps was constituted of Palestinians who had been serving in the Arab armies. But this army was never intended to be a serious force; for, recruits were given four weeks of training, while the officers got an extra three weeks of training. The instructors themselves were generally people trained in the conventional methods of fighting. The army's base was in the Sinai desert. The PLA and its political wing, the PLO, could never really develop into a fighting force as it was used as a pawn by the various Arab governments. The 1967 Israeli aggression exposed the PLA's ineffectiveness with a tragic vengeance.

The 1967 debacle gave those who believed in People's War and its strategy of guerilla warfare the chance to prove themselves. They did this by showing very quickly that it was possible to fight the Israelis without defeat and by demonstrating, through their rounds of successes, that there was nothing wrong with the Arab people — that only Arab ideas and methods of struggle needed a thorough overhauling. A new breed of men

had arisen in the Arab commandos who were armed with new ideas and were able to offer a way out.

Al Fatah itself had been born out of the blood-bath which occurred when the Israeli forces occupied the Gaza strip in 1956 and executed all the young men for no apparent reason except that they were young. Later, Al Fatah established its military wing, Al Assifah (the Hurricane). The first operation was carried out in 1965 when, under the leadership of Ahmed Musa, it bombed a tunnel. Soon it was able to increase the number of its sorties and at times it could mount 26 operations simultaneously. However, it was after the battle of Karameh that it emerged in a blaze of glory. In March 1968 an Israeli force invaded Jordan, and, avoiding the Jordanian army, made for the guerilla base at Karameh. Fifteen hours later, the Israeli force was retreating, badly mauled. The Fedayeen fought "hand to hand and house to house". One Western correspondent noted that guerilla raids across the West Bank "are believed to be causing the Israelis more concern than the Arab armies combined. As a result this section of the Arab front has assumed a military and political importance even greater than that of Egypt and the Suez Canal zone" (*Observer*, November 3, 1968). *Fateh*, organ of Al Fatah, was able to report in its issue of July 4, 1970, that the "Palestinian commandos launched a total of 346 operations against Zionist enemy troops in June, against 497 in May and 477 in April...". The drop in the number of operations was attributed to the conspiracy against the Palestinian Revolution in Jordan during the second week in June. The operations in June included the "blowing up of a military garage in Jerusalem, destruction of high voltage power pylons, downing of a Skyhawk, and rocketing of enemy positions". In the five-year period between January 1, 1965, and December 31, 1969, 6,000 military operations against the enemy were launched. Nearly one-third of all the operations were launched in 1969.

Needless to say Al Fatah never accepted the 1967 Security Council Resolution and regarded it as a betrayal of the Palestinian cause. Nor did it believe that a political solution, as envisaged in the Big Four Talks, could be of any value. In this uncompromising attitude the Palestinian commandos have had the support of Iraq,

Syria and Colonel Boummiedienne of Algeria.

Al Fatah is broadly based, in that, it allows into its ranks all those who are prepared to fight for the liberation of Palestine. Its programme has always been so designed as to accommodate the full spectrum from the extreme Left to the extreme Right, the basis of unity being the armed struggle against Zionist Israel. But racialism is foreign to the thinking of Al Fatah. Said Arafat, "Our new state will be free from Zionist racialism. It will be a democratic free state, where all Palestinians — Christians, Jews and Moslems — will be allowed to live on a basis of equality".

Last year, Arafat assumed control of the PLO and became its leader. But PFLP stayed out of that meeting. Recently, despite the PLO's standing, the UAR and Sudan closed its radio, because Al Fatah has come out against the American proposals which Nasser has accepted.

The PFLP on the other hand is a Marxist-Leninist oriented commando group. It has a much wider programme. It agrees with Al Fatah in the destruction of the state of Israel, but its aims are much wider, in that, it believes the struggle has to be waged against reactionary Arab states too — like Jordan, Lebanon, Saudi Arabia, Kuwait and even UAR. For instance, it was the PFLP who was responsible for blowing up the Trans-Arabian pipeline — an action which Al Fatah condemned. Likewise, it has been engaged in blowing up Israeli planes in Athens and Zurich. Though it boycotted the Conference of the PLO in January 1969, it participated in the Unified Command in May 1970. It was reported that Habbash might take up the chairmanship of the Political Bureau of the Command. It was in June 1970, in an action against Israeli troops, that PFLP emerged as a force to be reckoned with. Many Arab regimes have persecuted PFLP followers. Libya, under Idris, imprisoned PFLP members. Even today PFLP is not allowed to operate freely in certain Arab countries.

The PFLP stand can be summed up as one of unity with other commandos and struggle. Like the other commandos it, too, has rejected Nasser's acceptance of the American proposals; in a show of strength PFLP commandos marched in the streets of Amman. The call has been to the masses to pre-

pare for a Vietnam type of war, where the Palestinians would have to face not only Israel but also the puppet and reactionary Arab states as much as the US and the USSR.

Thus the struggle within the commando groups is ideological. George Habbash says, "Striking at imperialism inside and outside the Arab world is a basic part of our strategy from which we cannot deviate". Of the May 6 Unity Formula he says, "It is a modest step towards a bigger objective of achieving national unity amongst the commando organisations". George Habbash has also founded the Arab National Movement (ANM) which is a Pan-Arabic political organisation and he hopes to convince the other commando groups of the necessity to have this broader strategy. The aim to strike at the enemy both inside and outside the Arab world has ominous implications for imperialist interests. It may mean damage to the oil interests of imperialism in the Arab countries. Western interests complained of Libyan harassment of the oil concerns. An oil pipeline was bulldozed in Syria; and Government was in no hurry to repair it, despite pleas by Saudi Arabia and pressure from the American oil barons. And, now, the PFLP newspaper has exposed a secret deal between Iran, Saudi Arabia and Israel whereby Israel pumps oil through its own pipeline from Saudi Arabia and Iran. The destination of this oil is Rumania, the one communist country which has relations with Israel.

As the struggle becomes more and more protracted, the greater becomes the leftward swing. If Nasser was the Arab idol of the fifties, in the post-1967 period it is Arafat. Habbash and Nayeem Hawatemah of the PDF are also coming to the fore. It is significant that, after the showdown with Hussein, both these Marxists have been included on the Committee to supervise the peace in Jordan.

A heartening feature of the Palestinian struggle is the emergence of Jewish youth who, having denounced Zionism, have cast their lot with the oppressed Palestinians. One such group is the Matzpen. It is with such groups that commando groups like the PDF have established contact. That may yet be a guarantee that the Palestinian leaders will not themselves succumb to racialism, to become oppressors in their turn.

Sermon Time

Nireekshak

ANNIVERSARY sermons are an inescapable feature of Indian life. The Press usually combines its own sermons on such occasions with other trivia in the form of special supplements, fat or thin depending on the volume of advertising, which together produce a sense, if not of either heat or light, at least of sheer weight. It must be conceded, though, that supplements have their uses: revenue for newspapers and *raddi*-value for readers. Independence Day has, again this year, produced its crop of sermons and supplements. There seems to be an unwritten convention also in existence which says that, while supplements issued on 'national' days like Independence Day and Republic Day should deal with 'serious' topics ("Unemployment Enemy No 1", *Hindustan Standard*; "Human Values Must Have Priority over Economics in Planning", *Deccan Herald*), only 'light' fare—film reviews, short stories, cartoons, etc—can enhance the joys of Diwali or Pongal. Why? What would happen if the order were reversed?

For sheer weight, *Deccan Herald's* Independence Day supplement has few rivals this year. The paper hit upon the ingenious idea of fastening its usual Sunday magazine supplement to the I-Day supplement—there having been no issue of the paper on Sunday—thus killing two birds with one stone, as it were. What I noticed most about this 16-page affair (including eight pages of the Sunday magazine) was that it carried over 33 columns of advertising. To give *Herald* its full due, however, let it be said its supplement was also the most readable.

As for sermons, the one delivered by *National Herald* is hard to beat, the sky apparently not being the limit for its soaring inanities. "There had been nothing so exciting, so exhilarating since Independence as banks nationalisation", it wrote. Nothing, mind you, not the Constitution, not the integration of the 'princely' States, not the Avadi session of the Indian National Congress where for the first time Congress adopted a "socialistic pattern of society" as its goal, not the prevention of Pakistan's attempt to grab Kashmir by force in 1965, not even Indira Gandhi's election as Prime

Minister, but banks nationalisation! And why? "By that single bold stroke, the Prime Minister unleashed not only the forces of change but the energies of the people, which had remained frozen in spite of the planning process...". Second only to banks nationalisation was "the exciting election of Mr Giri". There was "a marked swing to polarisation", too, *Herald* thought, and while "the hopes of 1947 have not been realised [alas] not even by banks nationalisation...the people look forward with hope and trepidation to long leaps in the adventure of progress". There is only one minor flaw in all this, for as *Herald* noted, "The people will ignore the sermons of Independence Day... they want change and they seek assurance of it."

Searchlight's "Independence Day Thoughts" took quite a different turn. "Selfish and fossilised leaders", it wrote, "are concerned only about themselves, their friends and relations...not about serving the interests of the country or about saving democracy. Instead of polarisation the political life in the country is being constantly subjected to fragmentation of one kind or another." The net result, the paper went on to say, is that "the standard of public life in India has gone to the lowest of the low depth"—whatever that is.

Hitavada similarly expressed its forebodings about the future. Though it was "a matter for jubilation" that India was entering the twenty-fourth year "as a free nation", it ought to be recognised, it said, that "people live in an atmosphere of uncertainty...[where] self-interest and not a sense of justice rules supreme". Unfortunately, "the political party which claimed credit for getting freedom...has itself worked overtime to undermine people's faith in justice". In such a context, the paper concluded, "it is only if we decide to place justice and national interest above selfish individual and group interests that we can ward off the present dangers to our national existence".

Going back a few days from Independence Day one is reminded that it was on another anniversary, that of the 'Quit India' resolution, August 9,

that the 'land grab' movement was launched. *Blitz* blandly asserted that "land cannot be grabbed"; the phrase, like 'Syndicate', was an invention of the Press, so "call it off"—the movement, not the phrase. (*Blitz*, incidentally, had a very good I-Day supplement in the sense that it was original, having only one lengthy sermon—by G N Acharya—to the entire supplement.) *Tribune* recalled Ireland's land-grabbers of the 19th century who "merely took over farms of evicted tenants" and "the 'land pirates' of earlier decades who were notorious for rapacity" to point the moral that "India's land grabbers of 1970... beat them all in both the extent of the rapacious appropriation they have planned and the utter chaos they intend to create".

Not quite, *Amrita Bazar Patrika* seemed to argue. "There is no doubt that it [the land grab movement] will accelerate the Green Revolution", it thought; "but the question is whether the green fields will be soaked in the blood of innocent peasants and overzealous political workers... The movement raises a fundamental issue: Is land reform to be achieved by violence? If that is done, can reform in other sectors be achieved without violence?" The paper did not answer its own questions, however, and went on to conclude: "On the whole it is a confusing situation in which the basic purpose—relief to the landless peasantry—is likely to be overlaid by conflicting political aims."

Among other issues that agitated editorial writers last month were the "small car" and "drug price muddle". "It's that car again", snorted *Hindustan Times*. "The present decision means that the Planning Commission has lost out in the argument over competing investment priorities... The pretence of a 'people's car' has been quietly abandoned... The truth is that the Government does not have anything like a total and internally consistent policy for automobile manufacture in the country." (Does it have an 'externally consistent' policy for manufacture?) *Economic Times* greeted the Government announcement with the remark that "this is an extraordinary way of going about the complex task relating to automobile manufacture... Automobile manufacture cannot rank as a high priority item... [and] it is desir-

able to shed the illusion that the so-called small car will revolutionise transport for the common man". Unless the price and operational expenses of the small car can be kept "substantially lower" than those of the existing models "the small car will be yet another model with the Government tag on it".

The Government came in for a severe drubbing in the Press on the drug price issue also. Had the Government shown "even an elementary awareness of the problems involved", wrote *Times of India*, the

"confusion" attendant on the latest attempt to "rationalise the industry's complicated price structure could have been easily avoided". As it was "it acted in haste again and again only to retrace its steps or change course soon afterwards". *Mail* said that "Government was never clear about what it sought to achieve through the price control order" for "between May 16 and July 22 the original price control order was amended, clarified and revised no fewer than 25 times". The consumer is "in no mood to swallow this bitter pill".

REVIEWS

Must Muslims Become Baniyas or Kayasths?

Theodore P Wright, Jr

Rise of Muslims in Indian Politics by Rafiq Zakaria; Somaiya Publications, Bombay, 1970; pp 363; Rs 45.

OBJECTIVITY, that supreme value of the academic, is seldom found (or expected) in the politician. Yet here we have Maharashtra's Minister of Health publishing one of the most impartial and scholarly studies of Muslim politics in India which this reviewer has read. Two clues explaining the paradox are chronological: the book covers an important but less controversial period (1885-1906) than subsequent ones on this subject; and secondly, the original version was a doctoral thesis for London University produced in 1944-48 before the author began his political career. Why publication (in slightly revised form) was delayed until 1970 is not clear, but the hiatus of twenty-two years results in my only criticism of the work—it takes into account only one of the many books written during recent years on aspects of the subject, Wasi's on Lord Minto. The neglect of others like Ram Gopal, Abid Husain and Anil Seal gives this political history a slightly outdated appearance.

This criticism is mitigated by the second virtue of Zakaria's study: its topical organisation. Besides the familiar chapters on political, constitutional and administrative history and the vignettes of Muslim leadership, he contributes highly informative sections on the Urdu press, the differential impact of English education and industrialisation on Hindus and Muslims. Most pertinent today are the chapters

on early communal riots and Muslim social and religious reform. On the latter, he seems most sympathetic with the efforts of Syed Ahmed Khan. Syed Ahmed Khan is usually treated as a villain by nationalist historians because of his opposition to the Congress, but Zakaria treats both the founder of Aligarh and his British mentors with even-handed impartiality, seeking only to explain, not to condemn. Pakistanis should find Zakaria's statement instructive: "it can safely be asserted now that the father of Muslim 'nationhood' was not Mr Jinnah but Sir Syed". All his points are supported by a wealth of documentation from the India Office Library and the British Museum, including sources in Urdu usually not accessible to Western scholars. The venue of research inevitably gives the book a somewhat "London eye-view" and his dependence on the written record makes subtly for a North Indian orientation despite the author's Bombay ancestry.

Zakaria's stated purpose is narrowly historical: to find out the truth about the general belief that there was little, if any, political activity among the Muslims before the birth of the All-India Muslim League in 1906. If he had specified "modern" politics, the question would have been more consistent with present, broader notions of what constitutes "political activity". In any case, he has abundantly demonstrated the involvement of a variety of Mus-

lim elites in politics during the period. But his conclusions implicitly have a wider import than the purely historical. A recurrent theme throughout is that Muslims were disadvantaged compared to Hindus in their entry into modern politics by the aristocratic character, values and goals of their leadership. When middle class, mercantile and professional aspirants for leadership did arise, like the Tyabjis in Bombay, they were rejected by the mass of Muslims for lack of traditional status. One must quarrel with his description of the new English-educated class of Hindus as "coming from the lower strata of society". Certainly the *bhadralok* of Bengal were not low caste; but the overall comparison was and still is valid.

However, after a century of achievement "meritocracy" in India, as well as in the West, one must pause to reconsider Syed Husain Bilgrami's plea for the merits of aristocracy: "Competition did not test anything but the power of assimilating knowledge for reproduction on the application of proper stimulus. Capacity for physical endurance, power of muscle and sinew, moral capability, fearlessness of character—these are not measured by a literary test". In America in recent years many people have begun to question whether civil service examinations are an inclusive enough test of ability. Behind the interminable debate over which caste or community is "backward" and lacks its "due share" of jobs lies the unspoken assumption that ultimately in a completely modernised society each group will automatically get its exact proportion of every occupation. But qualities good and bad are unequally distributed among ascriptive groups as long as they continue to be distinguishable in their own and others' eyes. That is part of what we mean by their distinctive culture. So the desired proportionality can only be achieved by either permanent artificial quotas for the underrepresented or by reducing cultural diversity to uniformity in which case subgroups cease to exist. The former method is bound to reduce efficiency and production and be unjust to members of those groups (like Brahmins) who have the talents which are highly rewarded in modern society. The latter method overrides the constitutionally guaranteed rights of minorities.

In this connection, Zakaria reminds us in his chapter on riots that equal opportunity in the modern age, by increasing competition among all groups and destroying the functional

division of labour of traditional society, aggravates rather than reduces group conflict. He correctly exonerates the British from sole blame for communal tensions: "The British policy was not 'divide and rule'—the division was already there". Instead, he asserts that "far from perpetuating the old order, Britain, as the unconscious tool

Fruitless Confrontation

R K Srivastava

Contending Approaches to International Politics, Klaus Knorr and James Rosenau, (editors); Princeton University Press, Princeton, 1969; pp V + 297; \$ 7.50.

"WE have now entered a new phase in the apparently endless debate over method." This is how Russett describes the current controversy among students of international politics. Traditionally, the study of international politics has tended to be holistic, leaning heavily on historical, philosophical, legal, descriptive and normative approaches. However, in the sixties, the invasion of the study of international politics by the behavioural revolution posed a serious challenge to diplomatic historians, international law experts, and others, who could be characterised as the 'traditionalists'. Before the behavioural revolution could consolidate its gains, the traditionalists set in motion their counter-offensive. The debate between the 'classical' and the 'behavioural' approaches has now entered a second phase. Methodological debates in the fifties centred on the question of whether the scientific method could be used for the study of international politics. With the growing evidence of successful quantification of a large number of variables, useful for throwing up generalisations, the debate has now shifted to questioning the relevance of achievements. Interestingly enough, the debate is now dressed up in 'scientific' language. This is reflected in the essays of Hedley Bull, Marion J Levy, Oran R Young and Michael Haas. The arena of debate comprises model building, theory construction, and the suitability of science as a method of studying international politics. All the same, the 11 essays in this symposium together with the essay by the two editors plainly reflect the contention over methodology.

The present volume takes off from Hedley Bull's article in *World Politics* (April 1966), which argued for the classical approach by presenting a rubric of seven propositions, each of them juxtaposing the merits of the classical approach against antimonies of the scientific approach. At the

of history was causing a social revolution". Undoubtedly some hidden talents are uncovered by the Open Society and also by reservations for the "disadvantaged", but are these gains always worth the psychological misery brought on by the arousal of inherently unfulfillable ambitions? Must the Muslim become a Bania or a Kayasth to survive in modern India?

other end of the spectrum stands Mortan Kaplan's rejoinder appearing in the same journal (October 1966), which emphatically rejects Bull's claim that the scientific theorists are on a 'false path' and that 'what is of value in them can be accommodated readily enough in the classical approach'. In between stand the moderates, who do not consider the two approaches to be mutually exclusive and contradictory. But of these, only Michael Haas provides a detailed strategy of 'bridge-building in international relations'.

The disagreements within, as well as between, the groups, as evidenced by the volume under review, reflects a lack of consensus on either substantive or methodological aspects of research in the area of international politics. Among those answering Bull,

viz, Mortan Kaplan, David Singer, Richard Brody, and David Vital, there is no agreement even on definitional questions regarding the scope of the scientific method. Likewise, the traditionalists' attack on the scientific school is also very diffuse. For instance, while Bull criticises Kaplan for espousing the scientific method, Levy charges Kaplan with non-comprehension of science.

However, the commitment of the two camps to their particular approaches underscores two points. First, that both groups are equally conservative about their tools for studying international politics. Secondly, that the debate over methodology will continue to dominate the seventies. It would be useless to take a position in this controversy and it might be better to go along with some of the contributors in emphasising the need to avoid confrontation over trite issues. For, there exists, as Knorr and Rosenau rightly point out, 'the shared necessity of exercising judgment in the structuring of international phenomena, the bases for a complementarity that would put contention at the service of the common cause of comprehension'.

As a footnote, one may add that, contributions by Oran Young and Johan Galtung, who are not directly concerned with the controversy, represent fruitful efforts to open up a wider discussion of methodology. One wishes that the debate had flowed along those lines.

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SPECIAL ARTICLES

Some Aspects of Deposit Mobilisation

V V Bhatt

The banking system is unlikely to be in a position to meet the demand for bank credit from the priority sectors — agriculture and small-scale industry — unless a concerted policy is pursued to raise the rate of saving generally and the rate of saving in the form of deposits in particular.

So far, agriculture and small industry have been largely relying on borrowing from the unorganised market. To the extent to which the banking system is able to supplant this market, the latter's resources would be released for other purposes. Unless, therefore, the banking system can attract these released resources as deposits, it would not be able to meet the demand for credit that is likely to be generated.

Of course, it should be possible to induce borrowers in the organised sector to restrict their demand for credit to some extent and this needs to be done. But such switching has its limits. From a long-run point of view, the banking system can be viable only if it can mobilise deposits at the required rate. And this can be done only by making a bank deposit more attractive as a financial asset than private lending in the unorganised market.

It is the purpose of this article to suggest certain deposit schemes which can serve the purpose of raising the saving rate in general and the rate of deposit expansion in particular.

THERE has been considerable discussion recently with regard to the decline in the growth rate of deposits during 1969-70 as compared to the previous year. These year-to-year fluctuations in the growth rate, however, are quite normal and depend largely on the rate of creation of reserve money or the monetary liabilities of the Reserve Bank. Anyway the 1969-70 growth rate of deposits is more or less the same as the average growth rate since 1964-65.

The problem, however, is different. Since the nationalisation of the 14 major banks in July 1969, there has been a fairly substantial policy-directed expansion in advances to agriculture and small sector of industry, trade and transport — sectors which hitherto were by and large neglected by the banking system. The order of expansion in such advances was about Rs 225 crores between July 1969 and June 1970. This increase was by and large met by the commercial banks' borrowing from the Reserve Bank (Rs 119 crores), running down of cash and balances with the Reserve Bank (Rs 40 crores) and withdrawal of money at call (Rs 40 crores). Deposit expansion clearly was inadequate to meet this additional demand for bank credit.

Now, bank credit to these priority sectors is likely to rise at a high rate in view of the expected growth rates in agricultural output and the investment in the small sector. The banking system cannot meet this demand adequately without a corresponding rise in the growth rate of its deposits.

And this is how the problem of deposit mobilisation has become urgent. And it is from this point of view that the previous year's deposit expansion was inadequate.

I

The question, then, is: is it likely that bank deposits would expand, in the climate of reasonable price stability, at the required rate without additional measures to mobilise deposits? In agriculture and the small industrial sector (defined to include retail trade, small transport, etc), the saving-income ratio is smaller than the average ratio in the urban sector. As a result, the cash balances to income ratio is also smaller. Further, a large number of transactions in these sectors are unlikely to be of such magnitude as to require payment by cheque; this is in fact the reason why currency has expanded at a faster rate in 1969-70 (July-June) than the expansion rate of demand deposits. These sectors, again, are unlikely to keep a part of their saving in the form of fixed deposits; they would rather plough back their saving in their own business.

All these imply that the growth rate of deposits would in fact be smaller than what it has been in the past, when the growth rate of the organised industrial sector was much higher than that of the agricultural sector. Since, during the Fourth Plan period, the growth in agricultural incomes and output is likely to be higher than in the past, one should

expect on a priori reasons a relatively smaller growth in deposits and a relatively faster growth in currency. So far, the currency-deposits ratio has been declining at a steady rate; one could expect some reversal in this trend on the basis of the factors discussed earlier.

It is clear, therefore, that the banking system is unlikely to be in a position to meet adequately the demand for bank credit from the priority sectors — agriculture and the small industrial sector — unless a concerted effective policy is pursued to raise the rate of saving generally and the rate of saving in the form of deposits in particular.

Let us discuss this problem in a different way. Agriculture and the small sector are likely to be net borrowers from the banking system as are all efficient businesses; they, therefore, would not be in a position to increase the resources of the banking system. Now, so far, these sectors were relying on borrowing from the unorganised market. To the extent to which the banking system is able to supplant this market, the latter's resources would be released for other purposes. Unless, therefore, the banking system can attract these released resources as deposits, it would not be able to meet the demand for bank credit that is likely to be generated. Of course, it should be possible to induce the organised sector borrowers to restrict their demand for credit to some extent and this needs to be done. But such switching has its limits. From a long-run point of view,

the banking system can be viable only if it can mobilise deposits at the required rate. And this can be done only by making a bank deposit more attractive as a financial asset than private lending in the unorganised market.

It is the purpose of this article to suggest certain deposit schemes which can serve the purpose of raising the saving rate in general and the rate of deposit expansion in particular.

II

The objective of new deposit schemes should be to induce a higher rate of saving generally and saving in the form of bank deposits in particular. This implies that the schemes should be attuned to the basic motives to save. This by itself is not enough. The savers should feel that the instrument of deposits is a simple convenient and intelligible instrument for saving. They should have enough confidence in the banks so as to induce them to trust the bankers. And the bankers' attitude and approach must be such as to inspire trust and confidence and their services must be such as to offer maximum convenience to the savers.

Apart from linking deposits with saving motives, some deposit schemes should also be linked with certain services. If the banks could offer these services, the savers would be inclined to keep a part of their saving in the form of deposits.

Let us then first take up schemes which should be linked to saving motives.

The main motives to save are: (a) to own a house; (b) to provide for children's education and marriage; (c) to provide for old age; (d) to bequeath property to children; and (e) to provide for emergency expenditure like medical expenditure. Each new deposit scheme can be linked with each of these motives.

III

A DEPOSITS LINKED TO LENDING

For example, there could be a Housing Deposit such that if a person goes on adding to these deposits (not necessarily at a fixed rate) each year for a period of seven to ten years or more, he should be assured a bank loan equivalent to double the amount of his deposit, to be repaid over a period of seven to ten years. Such a deposit scheme could induce a person

to start saving early in his career, say when he is 23-24 years of age, because of the certainty of his having adequate finance to enable him to own a house by the time he is 34-35 years of age. The interest rates on deposits are more or less regulated and he can be paid interest on the basis of these regulations. But the scheme can be made more attractive by charging him interest on the loans at a rate one per cent lower than the normal rate.

This loan is in effect a loan with 50 per cent margin.

Similarly there could be Education Deposits, Marriage Deposits and Medical Deposits. The general principle behind the scheme is that a person who saves in these forms consistently over a period of years is certain of meeting his liabilities to the tune of double his saving. This linking of deposits with lending can be an effective instrument for inducing a higher rate of saving.

On the same principle, there could be an Investment Deposit. A farmer, for example, can accumulate a certain sum over a period of years equal to, say, 25 per cent of the price of a pumpset which he intends to buy. Once he has accumulated this amount, he should be assured of a loan large enough to buy a pumpset. This would be a loan with 25 per cent margin. Similarly, there could be a Consumption Deposit for the purchase of consumers' durable goods like radio, bicycle etc; in such cases, the loan should be with a 50 per cent margin.

B DEPOSITS LINKED TO OLD AGE PROVISION

After retirement, what a person needs is a stable monthly income. If he is induced to save regularly in the form of a Social Security Deposit when he is about 45 years of age, the bank could assure him, after retirement, a monthly payment of interest. Some salaried persons who get a lump sum of provident fund and/or insurance money after retirement could also be induced to keep this money in the form of Social Security Deposit if they are assured a steady monthly interest income. For a large number of lower and middle income groups, this deposit scheme could be very attractive.

C DEPOSITS LINKED TO INSURANCE

Large number of low income groups are unable to cover their life risk by taking an insurance policy as they are unable to pay regular premium pay-

ments. For such people, an Insurance Deposit could be devised. If a person keeps a minimum deposit of say Rs 100 for a period of five years he should be covered for his life risk to the tune of double the amount of his deposits. In case such a person dies, his successor would be entitled to get a minimum of Rs 200 from the bank. With such a deposit, the maximum insurance payment should not exceed Rs 10,000; otherwise, those who can normally take an insurance policy will also be induced to keep this deposit. The idea should be to provide a risk cover to small savers. If an appropriate arrangement is worked out with the LIC, this scheme of Insurance Deposit appears to be quite practical. In addition to this risk cover, the depositor, of course, would earn the normal interest. The insurance premium should be paid by the banks and should not be charged to the depositor; for, such deposits would on an average have a maturity period of more than ten years.

On similar principles, there could be a Crop Insurance Deposit for farmers. Crop Insurance is an urgent felt need and we have not been able to meet it so far. One could meet it in a small way by introducing a Crop Insurance Deposit. If because of famine or drought conditions, agricultural output declines by more than 10 per cent in a district, the depositors in that district should be entitled to get double the amount of their deposits, subject to a maximum of Rs 10,000. Taking a district as a unit would ensure that the decline in output is not due to reasons other than monsoon failure. If all banks introduce this Crop Insurance Deposit by a suitable arrangement with the LIC, there is no reason why this scheme should not be viable. Of all the deposit schemes, this scheme is what is urgently required if a real felt need is to be met.

D DEPOSITS LINKED TO SERVICES

If the banks offer certain services to depositors, they are likely to attract certain types of deposits.

(1) One such service could be door-to-door collection of small saving in the form of deposits. Quite a large number of people in agriculture and the small sector could save small amounts daily (say 25 p or multiples of that) with such arrangement. But they do not have time to go to a bank and deposit the amount. With

agents appointed to collect such deposits, this saving capacity and inclination can be tapped. The agents could be given a commission on the basis of the amount collected; this would open out a new avenue of employment also. Some banks have got Pigmy or Nitya-nidhi deposits, which are of this type and these schemes have succeeded well so far. Other banks could introduce such schemes. Since the motive for the deposits is not interest but accumulation of saving on a semi-contractual basis, the interest plus commission costs are not very large; in the existing schemes, the total costs come to less than 5 per cent.

(2) If the banks offer to pay land revenue or insurance premium out of the interest earned on deposits, some persons may be inclined to put deposits of such amounts as would earn enough interest to meet their land revenue or insurance premium liability. To attract deposits these types of services are worth providing.

(3) Another service which the banks can provide is an investment service. Some savers have neither the inclination nor the time to select an appropriate portfolio of financial investment. Banks can select the portfolio of investments on their behalf, keep the securities in safe custody, collect interest/dividend income and even fill income-tax forms; with such services offered, some savers would be inclined to keep their liquid funds in the form of deposits. These services are necessary even for popularising

small saving certificates, units of Unit Trust and such other securities.

(4) Some persons like farmers get their incomes say once or twice in a year, while their expenditure is spread over the whole year. If banks could collect deposits from them at the harvesting season, and assure them regular withdrawals during the year, farmers may be inclined to keep deposits with the banks. This scheme would ensure safety of their funds, prudence in their management and certainty of regular monthly means to meet their current liabilities. In addition they would earn some interest. With a sympathetic and persuasive approach, farmers could be attracted to such a scheme.

(5) While giving loans to farmers and small sector, the banks could provide them with facility of purchases from recognised dealers instead of giving them cash. In this case, the dealers could send the bills to the banks, which would debit the accounts of the loan receivers. Some banks have introduced agri-cards with such a purpose in mind. If such facilities are provided to others also, the customers would use bank money rather than currency for making payment and once they form this habit, they would be induced to keep their transaction balances in the form of deposits rather than in the form of currency.

E DEPOSITS LINKED WITH BEQUEST

One of the basic motives to save is to bequeath some property to

children. For a large number of lower or middle class families, it may be more convenient to do so by way of deposits than by way of other financial assets, provided suitable deposit schemes are available. The banks can introduce Children's Deposits such that the amount paid in the deposits plus interest thereon would be paid to the child of the depositor when it attains the age of 20 or 21 or any other specified age. The advantage to the depositor would be that he would not have to pay an income tax on interest earned nor would his successor be liable to pay death duties. Further, he would have the satisfaction of providing for each of his children whatever amount he really wants to provide; there would be no necessity of a will or other inheritance complications.

IV

These are some of the new deposit schemes which, if introduced, could raise the rate of saving as well as the rate of growth of bank deposits. To the extent to which the rate-of saving is raised, the growth rate of the economy would be higher. To the extent to which the deposit growth rate is raised, the community would have more effective control over the allocation of financial resources for Plan purposes; this would be much more so now that a major part of the financial system is under public sector control and regulation.

The IIT Graduate: 1970 Aspirations, Expectations and Ambitions

A D King

Although the Indian Institutes of Technology represent one of the most significant contributions to higher education since 1947, there is little systematic information available concerning their actual functioning within the economy, particularly regarding the roles taken up by their graduates since the inception of the Institutes.

In the absence of these data, an attempt has been made here to provide a framework of factual information which can be subjected to further analysis. This covers career aspirations, job preferences, salary expectations, commitment to engineering, career ambitions, plans on graduating of an 88 per cent sample of student engineers graduating from one IIT in 1970.

The paper raises a number of issues of relevance to manpower planners as also to policy-makers in higher technical education.

[The author is grateful to V K Jolly for his assistance in compiling the statistics in this paper.]

I

THE setting up of a Reviewing Committee earlier this year "to review the present progress" of the Institutes of Technology and "assess their impact" on "the technological development of the country" provides *de facto* recogni-

tion of the Government's continuing interest in the functioning of the IITs within the general economy as well as in their role in the production of high-level technical manpower. With student per capita costs well above the national average for higher education it is pertinent to ask whether such high investment in this particular type of human resource development is yielding the dividends expected of it. Though it is generally believed that the IIT graduate is giving a good account of himself, either at home or abroad and either in industry or higher studies and research, and that few are unem-

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ployed, a valid answer to this question can only be had when accurate data is available concerning the actual roles taken up by graduates, their long-term earning patterns, the new employment opportunities which they have generated for others, or the saving of foreign exchange resulting from indigenous research and development which IIT graduates have been able to promote.¹

As part of this discussion, one question has been central: what are the roles for which the IIT graduate is being educated? Recently, there has been much support for the production of "self-employed engineering entrepreneurs"; on other occasions, the emphasis has been on technical management; some have stressed the need to produce research and design engineers. Others would dismiss the question, asserting that the IIT's task is to provide a first-class, broad-based engineering education which develops the right attitudes and skills, a creative, problem-solving imagination and a flexibility of approach capable of fitting any particular employment situation.

Yet the Institute itself, has only marginal influence over the kind of career taken up by its graduates. Apart from any curricular or pedagogic changes which the Institute may introduce to orient its graduates in one direction or the other, social, economic, professional, personal, familial and cultural pressures will have equal if not more influence in deciding the ultimate career pursued by the Institute's alumni. In the larger social matrix, questions of status may influence a student to take up a managerial role rather than one in research; the real or perceived benefits of a foreign degree may wean him away from a promising job in production; family connections may take him into a bank even though his academic record would indicate an assured job in engineering design; a modest, low-income family background might encourage him to grasp at the first Rs 350 job offered to him on graduation. The kinds of employment which students take up, and the levels of appointment to which they aspire are as much a result of their total upbringing, their overall personality and their family environment as they are of the educational system from which they have graduated. Their own self-image as well as the role model which they construct for themselves during their education are equally significant in determining the types of employment they take up. It is for these reasons that the

social, economic and educational background of students is important.²

A further series of questions relates to the degree of commitment which engineering graduates have to the engineering profession. There is sufficient evidence to show that only a small proportion of students take up engineering education at the age of 16 or 17 because they are really and genuinely interested in the profession. For most the choice is governed by the employment opportunities which it seems to afford; for many, the choice is made by parents; others choose engineering because of the prestige attached to, and the opportunities offered by, the Institutes of Technology. Some students, thwarted in their original choice of a particular engineering discipline on entry to the IIT, never really reconcile themselves to taking up that discipline in which they were placed. Thus, although detailed and sophisticated estimates can be made regarding the education and supply of high-level technical manpower, there is, for these and other reasons, no absolute guarantee that the human resources actually being trained for these estimates will, in the end, fill the roles in the manner intended by the manpower planners. Indeed, in view of past experience in manpower planning, this may not be an altogether bad thing.

Until more research findings are available on the subsequent careers of IIT graduates an alternative inquiry can attempt an answer to some of the questions implied above, namely: why do students go to the IIT? how satisfied are the almost-graduated with their chosen profession? are they committed to this profession or would they be willing to change? do their career aspirations fluctuate with employment opportunities? do they approach the future with a guarantee of employment? what is the student's evaluation of himself in purely monetary terms? how great is his ambition, measured in terms of salaries at various stages of his career? what are his immediate plans and what type of job would he like to make his career in? is he confident about obtaining employment and for how long does he think he will be unemployed? what is his propensity to study abroad?

It is suggested that answers to these questions will not only provide some insight into the functioning of the IIT within the general economy; they should also provide information of relevance to educational policy-making within the Institutes themselves. It is the purpose of

this paper to report a preliminary study into some of these problems.

II

Method, Sample and Source of Data

The sample on which this project was conducted consisted of 88 per cent of the final year class of 230 students at one IIT. The students were drawn from mechanical, electrical, civil, chemical and textile engineering disciplines although data on the civil engineers was not as complete as for the other four. The research was conducted approximately one year before the students graduated in June 1970.

III

Joining the IIT

About half of the sample (130 students) were asked to write briefly on "why I decided to join the IIT" and to indicate the persons from whom they obtained advice in taking their decision. The responses, though not yielding data suitable for reliable quantification can, through content analysis nonetheless suggest some interesting insights.

Two broad categories of responses are identified: those of students who respond by explaining mainly why they took up engineering; secondly, those of students whose explanation is more with reference to the IIT and its facilities. Though clearly these two categories overlap, a minimum of twelve 'reasons' can be suggested for each of the two categories, as follows:

A REASONS FOR CHOOSING ENGINEERING

(1) *For the job opportunities it offered:* ('the selection of a career in India is largely determined by the job potentialities offered by it and very rarely do the personal tastes of students have anything to do with it. At the time I joined (1965) the trend was to join engineering and all good students opted for it, irrespective of their personal inclination'; 'to tell the truth, I was compelled to join the IIT. No, not by any persons as such but by the prevailing circumstances like the non-employment, the grim future (likelihood) and dim prospects'; 'I joined more because of importance attached to engineers at that time than because of any intrinsic aptitude for engineering').

(2) *Because of a genuine, vocational interest in engineering:* ('machines and production processes always fascinated me and still do'; 'I always wanted engineering. I wanted to be an engineer since a child... sometimes when the electricity used to go off, I would come by the electrician's side and watch him remove a short

circuit fault; 'all my hobbies were creative—I designed something, made something and repaired odd things in the house'.

(3) *Because of limited knowledge about other careers:* ('to be frank, there is hardly any other career available to a student of science coming out of school'; 'at the time I joined there were only three choices for a bright career, medicine, engineering and military'; 'my choice was management or commerce; it was probably only due to elderly advice (sic) that I decided to join the IIT. Frankly, I had no idea what an engineer is at school level; I hadn't heard of textile engineering till I was interviewed').

(4) *Because of the status enjoyed by the engineering profession:* ('As I had science scheme subjects in Higher Secondary, the alternative was either to do MSc or Ph D or join engineering. I wanted to acquire some high status in the society so the only way to achieve this was to join an engineering career'; 'I joined the IIT with very high hopes to become an authority in the field of engineering to which so much of social prestige and status is granted in my country. But after five years I am a little disgraced (sic) because of the falling social standard of engineers and the ever growing numbers to be left unemployed'; 'in my school days I saw many engineers enjoy life. They were respected by society and held high status').

(5) *Because of the 'herd instinct' and fashion:* ('frankly, it seemed to be a craze among boys of my age at the time'; 'I never sought any information. I just went along with the crowd'; 'at different times there has been a craze for going in for a certain profession, like engineering, medical, chartered accountant, etc'; 'In fact, I had plans to join the university and I took the IIT exam for the sake of taking it. I happened to get selected and since engineering was the 'in' thing, I joined the IIT. There was no definite, carefully thought-out reasoning behind my coming to this place').

(6) *For the financial rewards offered by engineering:* ('I wanted to do engineering right from childhood because engineers were the high-bracket income people; the engineering profession was the most respectable and lucrative profession available to graduates in science'; 'at the time I passed Higher Secondary there was a dearth of engineers and most were drawing handsome salaries; from my childhood, it had been drilled into my head that engineering is the best profession as far as money and salary was concerned').

(7) *Because of parental and kin influences:* ('I was told by my father to take the engineering profession'; 'I must clarify that I didn't have any particular interest for engineering and my parents decided my future career as engineer rather than me'; 'The career of a boy is chosen by the parents because at the age of 13 when this is to be done the boy is not matured enough to decide his future'; 'Obey your elders' is preached and I really obeyed them. I don't know at what cost. In

fact I had not even heard of IIT till the 11th class... it was due to (my uncle's) good or bad influence that I appeared in the entrance exam of IIT. I had really no intention of continuing studies after higher secondary but I had to honour the starting phase. I would still love to go to the field of agriculture after passing out').

(8) *Because of advice from school:* ('the atmosphere at that time was such in the schools that teachers always advised boys to join either engineering college or medical college. If in my life it had been my own choice I would have preferred a degree in literature or English Honours').

(9) *Because of the negative image of other disciplines:* ('thinking about Arts was anyway out of the question. Arts subjects were exclusively for the 'bad boys'; the reason I did not go in for science was because of the general feeling that sciences are only meant for research workers or professions rather than people who want to be absorbed in industry'; 'Arts necessarily do not have any future in India unless of course you are capable of pulling strings, or for very high studies, eventually leading to IAS or IFS posts, which are very competitive'; 'it was assumed that the only professions worth joining were science-oriented since almost everybody, including girls, went in for arts'; 'I didn't want to go for Physics or Chemistry Honours because I didn't like to take Chemistry and join some teaching job').

(10) *Because of the marriage prospects offered:* ('The war with China had just ended and there was a marked shift in the interests of parents of prospective brides; engineers and doctors were being preferred to army officers').

(11) *For the educational opportunity offered by the IIT:* ('I was never interested in engineering but the IIT attracted me more than other colleges and I foresaw a good development of myself there. I have always been interested in a diplomatic career'; 'To be an engineer was never my aim. Just to get higher education in any field was the idea. When I joined the IIT I had the idea that here I can get the best education and this idea I still hold'; 'Since I found no difference between graduating an engineer or historian, I automatically chose the IIT since the University appeared to be drab and distant').

(12) *Because of general ignorance about career choices:* ('It is just not possible to decide what fields to take up immediately after school. Most of the decisions taken by students are rash and taken without much thought'; 'it was difficult to choose the engineering branch because there was no proper person who could tell me which branch might suit me. So I opted for the most demanded branch'; 'at the time of passing the school, I was like a soldier ready to fight on any front and the picture on most fronts was hazy'; 'I had in fact joined, chemical engineering, which field was decided by my merit number. Then in a couple of days I was offered Electrical which I took without consulting anybody'; 'I was in the dark about mechanical or electrical

so I had to follow the general tendency at the time of the interview').

B REASONS FOR CHOOSING THE INSTITUTE OF TECHNOLOGY

(1) *Because of the reputation and prestige of the Institute:* ('Somewhere in the 9th or 10th grade I heard about the IITs and what seemed to me at that time, their awesome reputation'; 'IIT is one of the best Institutes for engineering and was the talk of the town those days'; 'IIT is an institute of national importance'; 'moreover, I could feel the thrill in me, even before admission to the IIT, at the very prospect of telling my friends and relations that I happen to be at IIT'; 'I was obviously attracted by the glamour associated with the name of IIT... it took a few years to realise that I was horribly disillusioned').

(2) *IIT graduates had better job opportunities than other engineering graduates:* ('as IIT was the best engineering institute, I thought IIT graduates would be preferred').

(3) *As with engineering, there was a fashion to join IIT:* ('Why I joined IIT? In the last year of school, all my friends applied for IIT. So did I but I got in and they did not. Now everyone in IIT is applying for MS in the States, so am I. Now if I get admission to MIT and my friends do not, I would not know why I joined MIT'; 'My friends praised it to the skies and frankly it seemed to be the craze'; 'In 11th class I got the science talent research scholarship, which would enable me to do Physics Honours at the University. However, as engineering was the craze of those days I appeared in the entrance exam of IIT'; 'when I passed the Indian School Cert examination, there was a lot of charm for the IIT (unfortunately it is no longer the same)').

(4) *Because of the challenge offered by a competitive examination:* ('I felt rather vainly that by being successful in this exam I could establish my intellectual superiority'; 'I had heard that the competition was extremely stiff and this further made me resolve to have a try at the IIT exam'; 'the written exam was very difficult. About 1 lakh students from all over India appear and only 1,500 get selected'; 'People used to think that I can't pass these tests. I had one year and I started preparation from the beginning. I just wanted to show these people that I can make it and I am also fit for these big institutes. So I worked very hard and here I am writing this essay').

(5) *Because it enabled the student to remain in his home-town:* ('Moreover, this is the nearest college to my house so my mother was also in favour of the IIT'; 'It had a good reputation and was closest to my residence'; 'Another reason for joining was that I could stay in my home-town').

(6) *Because it seemed to provide a good passport to go abroad:* ('I reckoned that a graduate from IIT had better prospects of getting abroad'; 'The fact that the majority of students going to

* The maximum number which has sat the examination is about 35,000.

TABLE 1: WILLINGNESS TO TAKE UP A NON-ENGINEERING APPOINTMENT: PERCENTAGE OF STUDENTS WHO WOULD LIKE TO TAKE UP A JOB WHICH HAS 'LITTLE OR NOTHING TO DO WITH ENGINEERING' N=181

	Mechanical (59)	Electrical (47)	Chemical (47)	Textile (28)	Total (181)
Willing	30.5	29.8	40.3	35.7	33.7
Unwilling	57.7	53.2	47.0	53.5	53.0
No response	11.8	17.0	12.7	10.8	13.3
Total	100.0	100.0	100.0	100.0	100.0

Note: Data on civil engineering students was not available.

foreign countries are from the IIT made me join'; 'There are good chances for an IIT graduate to go to the US on university scholarships. It was also an important factor motivating me to join IIT').

(7) *Because of the attractive campus and other facilities:* ('I came to get the application form and was impressed by the beautiful buildings and lawns and the latest equipment in the labs and I decided to join'; 'I joined for no better reason than that it has an attractive set of buildings and was sufficiently well-organised'; 'IIT... with a beautifully laid-out campus and more facilities and excellent chance of working in the workshops').

(8) *Because the Institute is compulsorily residential:* ('it was a residential college and hence offered me more liberty and self-dependence'; 'I always had a strong desire of staying out of home'; 'IITs are residential and I thought this would render me more freedom so I could study more than at home and also enjoy more').

(9) *Because of the perceived reputation of its students:* ('it was the belief of people that students of IIT are the cream of the nation, so I tried my luck'; 'almost all the bright students usually tried to join the IIT'; 'at that time I thought [it] was a university for the elite').

(10) *Because of the perceived lack of student unrest at the IIT:* ('Besides, there is no student unrest here').

(11) *Because of the accommodation provided:* ('the rooms are provided with furniture and there are fans in each room'; 'I liked the messing arrangements here').

(12) *Various other reasons* were given such as 'the way of life', the semester system, the ignorance about other institutions, 'the library, the 'minimum finances needed', because of other relatives here, because it was the first place to offer admission, etc.

Despite the lack of quantification in these responses, two things are clear: students take up a professional course at any particular institution for a variety of complex, interrelated reasons. Secondly, it would seem evident that genuine vocational choice founded on interest, aptitude or knowledge of a profession (in this case engineering) at the age of 13 or 14, is a fragile and minority phenomenon. As indicated in

burden to 'find a job'.

Two other brief comments are relevant. Despite the high level of engineering unemployment, the experience of IIT graduates would suggest that an IIT degree still offers better employment prospects for science stream students than most other science-oriented qualifications. And in terms of the facilities provided by the IITs and the high staff-student ratio, they certainly provide, as some of the students have noted, one of the best state-subsidised, broad-based educational courses in the country. Increasingly, many students are viewing their general scientific and engineering education at undergraduate level as a foundation from which to go on into such modern fields as systems analysis, financial and marketing management, computer science, industrial engineering, advertising, and such interdisciplinary areas as environmental design, after taking further post-graduate studies. The fall in the number of Joint Entrance Examination candidates would therefore suggest a fairly widespread myopia among secondary school students and their parents.

Secondly, more research is needed on the motivations and values behind the choice of engineering as an occupation. Interestingly, many of the reasons given by the Indian students in this study are comparable to those of American engineering students. One American study indicated that 52 per cent of students chose engineering for the opportunity it offered to be creative and original, 38 per cent for 'the chance to earn a great deal of money', and 28 per

TABLE 2: TYPE OF NON-ENGINEERING EMPLOYMENT WHICH STUDENTS WOULD LIKE TO TAKE UP

Type of Employment	Mechanical (18)	Electrical (14)	Chemical (19)	Textile (10)	Total (61)
Management/management executive/business administration	5	3	7	3	18
IAS/IFS, and 'similar services'	3	3	6	1	12
Administration/'pure administration'	4	4	2		4
Private business			3	1	10
Farming		3			3
Teaching	2		1		3

The following types of employment were each mentioned once. The particular discipline is indicated in brackets after the employment type.

Legal/administrative(m), organisation and methods(m), manufacturing of engineering auxiliaries(t), acting(m), artist (c), writing(e), contractor(t), social worker(c), advertising(t), set up own business, not necessarily in engineering (m), Air Force official(m), anything(m), any job paying handsomely(m), any well-paying business(c). (The total is more than 61 as more than one response was given by some students).

TABLE 3: PERCENTAGE OF STUDENTS OPTING FOR: EACH OF NINE CATEGORIES OF ENGINEERING EMPLOYMENT

Preference for	Mechanical	Electrical	Chemical	Textile	Civil*	Total (181)
Administration and management	54.5	49.0	46.7	60.7	51.0	52.0
Manufacturing	17.4	4.3	14.9	14.3		12.7
Research	10.2	17.0	6.4	3.6		10.0
Sales	6.3	8.5	4.3	7.1		6.6
Design and survey	3.4	8.5	17.0	3.6		8.2
Maintenance	5.3	4.3	4.3	7.1		5.0
Construction						
Teaching**						
Transport/communication	3.4	4.3	4.3	3.6		3.8
Other		4.3	2.1			1.7
Nil response	100 (59)	100 (47)	100 (47)	100 (28)	(49)	100 (181)

* Complete data was not available for civil engineering students.

** Because of a typing error in the questionnaire this category drew no responses.

cent for 'the opportunity to help others.' A British study indicated that 32 per cent suggested 'money' or 'good prospects' as their main reason, 19 per cent the opportunity to be creative and 13 per cent the chance to combine theory with practice.³ The motivational factors which would seem to be peculiar to India and possibly to other so-called 'developing societies' are those more related to the employment prospects of a profession, the limited knowledge of other career possibilities, the strong influence of peer groups, the strong influence of parental advice, the images of other disciplines, the reliance on family and kin for information (see below), cultural determinants such as the marriage prospects of a member of a particular profession, the ties between parents and offspring governing absence from home, the possibilities of getting a prestige-giving foreign degree, the extracurricular amenities offered by an educational institution having a privileged status in relation to other sectors in higher education. If manpower planning and education programmes are to attain a higher degree of effectiveness, these and other reasons of motivation to career choice, of an economy-, society- and culture-specific nature need much further analysis.

Though the responses relating to sources of advice were again, not sufficiently quantifiable, this preliminary exercise indicates that a very large majority of students took their advice to join the IIT either from immediate family members, (father, brother, uncle), from more distant relatives (cousins, in-laws) or from friends of these. Significantly, very few had advice from their school, or from teachers, many had no advice at all (usually those who expressed a 'genuine interest in engineering') and only the smallest minority had what

might be termed 'professional advice' from either people in the engineering profession or from such official careers advisers as exist.

IV

Discipline Satisfaction

As described previously⁴ students had been placed in various disciplines four years earlier on the basis of their preferences and more particularly, their placing in the Joint Entrance Examination Merit List. In 1965, when they entered, the 'order of popularity' was mechanical, electrical, chemical, civil and textile engineering. As the total student entry had to be divided more or less equally between five engineering disciplines (four took 60 students each and one took 30) it is clear that, from the start, a considerable proportion of students enter the IIT with greater or less degrees of satisfaction with the discipline which they chose or which was chosen for them, by circumstances.

In 1965 95 per cent of mechanical engineering students obtained the discipline of their first choice. The remaining 5 per cent had indicated it as their second choice. In electrical engineering, 36 per cent had indicated it as first choice, 26 per cent as second choice and 32 per cent as third choice; 8 per cent of students in this discipline had not indicated it as either 1st, 2nd or 3rd choice and had presumably arrived at the decision only as one of two available alternatives, possibly without much enthusiasm. In textile engineering, only 44 per cent had indicated this as first choice, 20 per cent as second and 28 per cent as third choice. In this case, 36 per cent of these

students had not indicated this particular discipline at all and entered it as a result of all other disciplines being closed. No data are available on civil engineering students.

This somewhat obvious analysis provides a first insight into two phenomena: the 'attachment' to a particular discipline with which a student starts his undergraduate education; secondly, the level of motivation which a student brings to the study of a discipline which he either opted for as first or second choice or alternatively, has not opted for at all but instead, has resigned himself to as a result of exclusion from other disciplines.

A more accurate measure of levels of satisfaction can, of course, be obtained from a straight question. Students were asked 'Are you satisfied with the choice that you made/or that was made for you?'. Whilst 89 per cent of the total were satisfied with the discipline they were in, the levels of dissatisfaction varied considerably among the disciplines. In mechanical engineering, less than 2 per cent (one student only) were dissatisfied, compared to 27 per cent in civil engineering (13 students). Of chemical engineering students 17 per cent registered dissatisfaction with their discipline compared to less than 4 per cent of textile engineering students.

In explaining their reasons for satisfaction and dissatisfaction, students in the various disciplines differed in interesting and significant ways. Overall, the largest percentage (40 per cent) of satisfied students explained their satisfaction in terms of better employment opportunities offered by their particular discipline. A smaller percentage (36 per cent) explained it in terms of their having a genuine, vocational interest in the discipline. (It was 'the branch I have always wanted. I want to design machinery'; 'I was deeply interested in the practical application of the physical sciences'; 'I wanted to establish a pesticides factory'; 'Before joining I had an aptitude for it'). A third, smaller group (15 per cent) were satisfied because they found the subjects and courses interesting. They were 'interesting, challenging, stimulating'; 'electronics is a very interesting and revolutionary subject'.

Yet, among these three major reasons for discipline satisfaction, there are significant differences among the students in the different disciplines. In mechanical engineering, twice as many students (46 per cent) were satisfied because they had a genuine vocational interest in the subject than those (22 per cent) who were satisfied because it

TABLE 4: STARTING SALARIES CONSIDERED APPROPRIATE AND ACCEPTABLE TO GRADUATES: BREAKDOWN BY DISCIPLINE AND SALARY INDICATED

Rupees per Month	Mechanical		Electrical		Chemical		Textile		Civil		Total	
	Appropriate	Will Accept	Appropriate	Will Accept	Appropriate	Will Accept	Appropriate	Will Accept	Appropriate	Will Accept	Appropriate	Will Accept
2000		1										1
1500					1						1	
1000	3	1	1		1	1	4		1		10	2
950	1				1						2	
900	3		1		3	1					7	1
850	2				1			1			3	1
800	12	5	4	1	6	2	1	1	3	2	26	11
750			2	1	1		1				3	2
700	11	7	5	2	6	5	5	1	8	1	35	16
650	1	1	4		5	1					10	2
600	11	11	17	5	14	9	7	5	11	2	60	32
550	4	4	3	2		2	2	2			11	
500	10	11	7	14	8	9	8	6	22	14	55	54
450		7	3	7		3	1	4			4	21
400	1	10		10		4		7	3	21	4	52
350				2			1	1			1	3
300		1	4						1	8	1	13
250												
200									1			1
Total	59	59	47	47	47	47	28	28	49	49	230	230

offered better employment opportunities. In textile engineering, however, three times as many students (63 per cent) were satisfied because of the employment prospects offered by the discipline than those (22 per cent) who had a genuine vocational interest in the subject. Likewise, twice as many chemical engineers (61 per cent) were satisfied because of employment opportunities than because of vocational interest (23 per cent).

Though too much should not perhaps be concluded from these figures, they suggest that personal intellectual commitment to an engineering discipline, and interest in it, supported by a fortunate placing at the IIT, is much stronger in some disciplines than in others. Over a long period, this factor could be of some significance both in the development of the industry and in the development of a particular engineering profession. Clearly, some students are dedicated to engineering and many have potential to revolutionise industry. Others, however, regard it simply as a means of getting a salary and would take up any other job at the mere drop of a hat.

One student explained his satisfaction in terms of 'patriotic motives': 'India is industrialising and needs engineers. I want to be a mechanical engineer to serve the country'.

V

Commitment to Engineering

Attention has already been drawn to

some of the factors influencing students to join the IIT. As has been shown, many factors help to determine his choice.

Not all students, however, are satisfied with this choice; only a minority of them actually get entry into the discipline they opted for. Of the others, some settle down and develop an interest in the field they are in; others look enviously on their colleagues in more preferred disciplines.

For that proportion whose main interest in engineering stemmed from the employment opportunities it seemed to offer when they entered the IIT, and who may have had only a marginal interest in the profession beyond its ability to provide secure employment, a change in attitude towards engineering may take place as employment prospects recede. In this study an attempt was made to measure:

(1) the commitment which a final year student had to his own engineering discipline and his willingness to 'convert' to another discipline, if given the opportunity to do so, free of cost.

(2) the commitment which a final year student had to engineering as a profession and whether he would like to take up a job which had 'little or nothing to do with engineering'.

In view of the oversupply of graduates in some engineering disciplines (such as civil engineering where 50 per cent of the stock is reported to be unutilised⁵), and the relative under-supply in others (such as textile engineering where employment prospects seem to have improved over the last two years), knowledge regarding the

number of students willing to convert to other disciplines might be useful in planning educational programmes.

Of the total, 42 per cent expressed their willingness to convert to other engineering disciplines. This varied between 34 per cent and 38 per cent of mechanical, electrical and chemical engineers to 63 per cent and 64 per cent of textile and civil engineers. The disciplines to which students would convert can be divided into three categories: other engineering disciplines within the institute, management and business administration, and others. Of 96 students willing to convert, 41 would like to move to other disciplines within the institute. Eight per cent would like to take up management or business administration. Five per cent would take up aeronautical engineering. Of 31 civil engineers, 7 wished to take up architecture. The majority of 'converts' wished to move over to mechanical and electrical engineering, none to civil engineering where the greatest unemployment exists.

To assess students' overall commitment to engineering, they were asked 'Would you like to take up a job which has little or nothing to do with engineering? If so, what is the job?'.

Of all students, 53 per cent indicated that they would not like a 'non-engineering job' 34 per cent would like to take up such a job, and 13 per cent did not reply.

In view of the responses given, these percentages would need to be carefully interpreted, particularly as experience indicates that as students enter their final year (when this research was conducted) their attitudes both to engineering, and to the idea of work generally, become more realistic. Not only do they have to start thinking seriously about what they are going to do on graduation; in addition, the fifth year course, with its emphasis on the undertaking of an individual engineering project, probably has considerable influence in forming their ideas about engineering in actual practice.

Of the 61 students willing to take up a 'non-engineering appointment', 30 per cent expressed an interest in pursuing management/business administration appointments. However, would 'management' in an engineering concern be legitimately described as 'a job which has little or nothing to do with engineering'? The fact that 18 students indicated 'management' in this category gives some insight into their own role model of what engineering is or does, and also, of course, into what

TABLE 5: AVERAGE SALARIES EXPECTED BY STUDENTS IN EACH DISCIPLINE AT VARIOUS STAGES OF THEIR CAREERS (RUPEES PER MONTH)

Average	Mechanical	Electrical	Chemical	Textile	Civil	All
On graduation	650	602	630	652	502	607
At the age of 30	1610	1570	1535	1830	1410	1591
At the age of 40	2500	1790	2570	3190	2130	2436
On retiring	4830	4556	4238	4780	3090	4300

their concept of management is.

Of the 61, 20 per cent would like to go into the Indian Administrative Service or the Indian Foreign Service or 'similar services'. A further 18 per cent would like to enter 'administration', 'pure administration', or legal/administrative posts.

Thus, of these final year students who would like to take up what they describe as 'non-engineering jobs', approximately 68 per cent would prefer jobs in management and administrative capacities. This tendency is strongest in chemical engineering (15/19), mechanical engineering (13/18), and weakest in electrical engineering (7/14) and textile engineering (4/10). Approximately 7 per cent of the 61 would like to go into private business. The proportion which would like to be artists of one kind or another (writers, painters, actors) is about the same as that wishing to be farmers (5 per cent). One student would like to be a social worker. Another 5 per cent would take up anything, provided, for two of them, that 'the job paid handsomely' or the business was 'well-paying'.

This data would seem to indicate that, at the start of the fifth and final year of the engineering course, slightly over half (53 per cent) of the undergraduates are committed fully to engineering as a profession and one third (34 per cent) is not fully committed. There is an unknown quantity of 13 per cent. The commitment would seem to be highest in mechanical engineering (58 per cent) and lowest in chemical engineering (47 per cent); the willingness to take up 'non-engineering jobs', highest in chemical engineering (40 per cent) and lowest in mechanical and electrical engineering (30 per cent). Any attempt to explain these figures would need to take into account the initial allocations on entry, the reasons for choosing the particular discipline if in fact it was chosen, the prevailing employment climate, the social and economic background of the student, the prevailing image of the discipline, the educational experience of the student, and many other variables. It

is worthy of comment that at least 12 out of 230 final year engineering students would like to take up appointments in the IAS or IFS.

VI

Preferences for Various Types of Employment

The Institute of Applied Manpower Research has suggested the following eight broad categories of engineering employment: maintenance, construction, administration and management, design and survey, research, teaching, transport and communication, manufacturing.⁶ Sales engineering may be regarded as a further category.

Students were asked to indicate their priorities on the type of job they would prefer to make their career in, from these nine categories.

For 52 per cent of all students, their first preference is a career in administration and management. This preference is highest with textile engineers (61 per cent) and lowest with chemical engineers (47 per cent). Considerably below this, in terms of preferences is manufacturing with 13 per cent of students opting for this type of career. 10 per cent wish to pursue careers in research; 8 per cent in design and survey; 7 per cent in sales; 5 per cent in maintenance and 4 per cent in transport and communication. (Because of a misprint in the questionnaire, no preferences were indicated for teaching).

The preference for manufacturing is higher than the average among mechanical engineers (17 per cent) and much lower (4 per cent) among electrical engineering students, as is probably to be expected. Preference for research is considerably higher among electrical engineers (17 per cent) than the average, and correspondingly lower among chemical (6 per cent) and textile engineers (4 per cent). Preference for sales is not significantly different among all four disciplines, the average being 7 per cent. Chemical engineers register a much higher preference for work in design and survey (17 per cent) than the average (8 per cent) as is to be

expected.

Interpretations of these data would need to be made with caution. Insofar as one sector of decision-makers in engineering education has fairly consistently argued that a major task of the IITs is to produce 'technically-oriented managers' or a 'technological elite', the fact that over half of the sample indicate preferences for careers in administration and management, could be taken as a happy congruence between their aspirations and those of the IIT undergraduates. It might also be worth mentioning that, in the highly-industrialised economy of the UK, the most comprehensive survey of the engineering profession carried out to date found that one-third of all engineers are in senior or top management functions. Half are engaged in junior and senior management functions at the age of 33, and 22 per cent are in top executive positions at the age of 47.⁷

Overall, 10 per cent of the students prefer to take up research. This approximates closely to the percentage of scientists and technologists actually in research in the country.⁸ While this figure is reached for both mechanical and electrical engineering students, students in chemical, and especially textile, engineering fall considerably short of this.

However, for those who argue that the IITs' major function is to develop engineers who should significantly generate and increase at the grass-roots level, actual industrial production, or start small-scale industries, the figures are less promising. If manufacturing is seen as a secondary sector economic activity, actually concerned with the production of new goods, then administration and management, research, sales, maintenance, could all possibly be seen as tertiary or service sector activities to the engineering industry. If this is the case, then it indicates that approximately 20 per cent graduates propose careers in immediate production areas and approximately 80 per cent in service sectors of the engineering industry. Such generalisations, however, would need to be very carefully examined.

VII

Assurance of Employment

The significance of data on the guarantee of employment immediately after graduation would be twofold: at the undergraduate educational level, it might provide a degree of mental

TABLE 6: PERCENTAGES OF STUDENTS GRADUATING IN 1970 SHOWN ACCORDING TO CLASS OF DEGREE OBTAINED

Class of Degree	Mechanical	Electrical	Chemical	Textile	Civil
(1) First class with distinction	16	13	1	0	2
(2) First class	64	41	35	50	35
(3) Second class	20	44	64	50	59
(4) Fail (to resit)					4
Total	100	98*	100	100	100

* 2 per cent of results still to be declared.

security permitting the student to devote himself to his studies, or alternatively, it might lead to complacency and a disincentive to work. Secondly, guaranteed employment by friends, relatives or one's immediate family might significantly determine the kind of career which students take up, irrespective of the Institute's goals for its undergraduate population.

Fifteen per cent of students had guaranteed employment as they began their fifth year. This figure was highest for mechanical engineers (20 per cent) and lowest for textile engineers (2 per cent). The most important category of guarantors was the 'immediate family' (father, brother, uncle, cousin) who accounted for 66 per cent of all those guaranteed employment. The kind of employment guaranteed to these 35 students was largely in the field of engineering. The fact that only 10 per cent (23 out of 230 students) were guaranteed employment by immediate family members indicates a comparatively low proportion of the graduating class who would rely more on ascriptive rather than achievement criteria to start off their careers.

VIII

Salaries: Self-Assessment and Aspirations

A man's starting salary is, to some extent, a reflection of what he believes himself to be worth. A number of factors determined this measure of self-evaluation: to begin with, various reference groups suggest salary norms to which he should conform: for the IIT student, these would include the previous year's graduates taking up employment in the same discipline, the parents and near relatives of the students, the social and economic class group from which he originates, and his own immediate peer group with which he generally associates. Another factor determining the salary which a person might expect is the overall market value

of a person with his particular qualifications. Although the salary range is clearly limited, there is a range. There is, for example, the difference between the minimum pay of government service and the maximum pay of the private sector. Notionally, this could be between Rs 250 and Rs 1600 a month. (The starting salary of one IIT graduate in 1967.) However, this range differs among the disciplines as a result of the supply of graduates available, the proportion of vacancies between public and private sector, and the general buoyancy of the major industries for which the discipline caters.

Despite all these variables, it is clear that there is ample room for very significant personal variations in the level of salary (and consequently, level of appointment) sought by students. Each man assesses his own worth, taking into account not only the criteria suggested above, but also, other variables of a more personal nature. Here, his academic record, though the most obvious variable, is certainly not the most important one. What importance does the student place on the Institute's evaluation of his own academic competence? Though the answer to this question may vary from student to student, it would depend ultimately on the student's faith in the ability of the Institute to evaluate him. Additionally, students would acknowledge that their academic record is only a partial evaluation of their own competence: many attributes and qualities sought by employers, for which they are willing to pay, are neither examined nor registered in a student's academic result. To illustrate these generalisations the cases of two mechanical engineering graduates of 1968 can be quoted: one student with a poor second class degree in the lower half of the merit list, refused to consider low-range salaried appointments and held out for a number of months eventually obtaining, after extremely stiff open competition, a trainee management appointment at over Rs 1,000 a month. On

the other hand, his classmate, with a good first class degree and in the upper ranges of the merit list, less confident of his own abilities, jumped at the first job he was offered at Rs 450, immediately after graduation. Thus, personality attributes such as self-confidence, ambition, minimally acceptable life styles and standards of living (themselves often the product of the family and social class background of the person concerned) probably have more influence in determining what a man thinks he is worth than the class of degree or merit-placing which the Institute awards him. Within the limited but nonetheless broad range of salaries open to him to aim at, these then are some of the influences which might make him select one figure as more appropriate than another.

Students were asked 'What starting salary would you think appropriate for a person with your training and calibre?' and 'What is the minimum salary you would accept?'.

The largest number of students (74 per cent of the sample) believe that, on graduation, they are worth between Rs 500 and Rs 750; 21 per cent assess their worth at Rs 800 and above and 4 per cent at Rs 450 and below. However, these percentages vary very considerably among the disciplines. Over 35 per cent of mechanical engineering students place themselves in the Rs 800-plus bracket compared to 28 per cent of chemical engineers, 18 per cent of textile engineers, 13 per cent of electrical engineers, and 8 per cent of civil engineers.

The 4 per cent who would sell themselves more cheaply are again unevenly distributed among disciplines. They include 8 per cent of civil, 7 per cent of textile, 6 per cent of electrical, 2 per cent of mechanical, and no chemical engineers.

While a person may think himself worth a particular salary, what he will actually accept is an even better index of his own self-assessment of his worth. Clearly, there are salaries which, in the normal run of things, it would be uneconomic to accept. In an economic situation lacking mobility and flexibility, where one's point on a salary-scale frequently determines the point of entry on all subsequent scales when changing jobs, the first salary accepted is of crucial importance.⁹

Moreover, as numerous studies in the economics of education have pointed out, a person's total earnings over a specified time period should at least be equal to if not preferably greater than,

TABLE 7: EXPECTED LENGTH OF UNEMPLOYMENT BEFORE OBTAINING FIRST JOB: PERCENTAGE OF STUDENTS IN EACH DISCIPLINE INDICATING VARIOUS PERIODS OF UNEMPLOYMENT EXPECTED

	Nil	8 Weeks and Below	2½ to 4 Months	5 to 8 Months	1 Year and Above	Response Nil	Av Exp Unemp in Weeks
Mechanical	29	32	24	6	11		8
Electrical	24	23	19	23	12		9
Chemical	17	17	13	18	18		11
Textile	27	13	20	6			3
Civil	3	15	24	47	59		21
Total	100	100	100	100	100		11
Percentage of total in each period	26	33	23	7	7	4	100

the public and private investment in his education. If, for example, a 'gestation' period of five years is allowed (equal to the length of this undergraduate education), during which time a graduate would earn an amount equal to that which was required to be invested in his professional education, then an equation could be arrived at which would give the minimum economic salary he should expect and accept, i.e., private costs (Rs 10,000) plus public costs = annual earnings by 5. Though a calculation considerably more sophisticated than this would need to be devised, it would be possible to arrive at a suggested though hardly an enforceable minimum salary for which IIT students should aim.

When accepting minimum salaries, with one or two exceptions, IIT students are willing to lower their sights. Only 7 per cent will not go below Rs 800; 54 per cent would accept Rs 500 to Rs 750, but as many as 39 per cent would take Rs 450 and below. Even so, the average minimum salary which students would accept, according to this sample, is Rs 516.

On this revised measure, mechanical engineers still value themselves most highly of all five disciplines, at Rs 565, though this figure is also the average for chemical engineers; textile engineers would, on average, take not less than Rs 515, electrical engineers, Rs 495, and civil engineers, Rs 440. Again, there are significant differences among disciplines. While only 15 per cent of chemical engineers would accept Rs 450 and below, twice as many students in mechanical (30 per cent), three times as many in electrical (47 per cent) and textile (43 per cent) and four times as many in civil (61 per cent) would be willing to do so. At the upper level, in the Rs 800 plus bracket, 12 per cent of mechanical, 8 per cent of chemical, 7

per cent of textile, but only 4 per cent of civil and 2 per cent of electrical would hold out for higher salaries.

It is difficult to find a completely satisfactory explanation for these figures. For civil engineering students, it could be assumed that the general prevalence of unemployment is so widespread that students in this discipline have long ago adjusted to what they see as the realities of the situation. Additionally, there are fewer jobs in this discipline which are available in the private sector where higher salaries are paid. However, in view of what is known of students in other years,¹⁰ it would be difficult not to assume that, the less economically privileged background — from which it has been suggested that many civil engineering students come — is also not responsible for toning down their aspirations in terms of salaries: having had less, they are content with less.

The lack of employment opportunities, however, would not explain the large differences between mechanical, electrical and chemical engineering students. If gossip can be relied on, opportunities for mechanical engineering graduates are as good as, if not better than, those for students in chemical engineering. Can an explanation be found in the social class background of either of these groups? Do chemical engineering students come from a wealthier background, and not only would be unable to accept a salary which they thought incommensurate with their general family status, but also, would manage to 'hold out' longer for higher salaries to be offered? These and other explanations could be examined. Likewise, employment opportunities in electrical engineering would not be so significantly worse than those in chemical engineering to explain the comparatively large percentage (47 per cent) of elec-

trical engineers who would be willing to accept Rs 450 and below as starting salaries. One explanation could be sought (if the data were further analysed) in the kinds of occupations sought among disciplines. The fact that a higher proportion of mechanical engineering students wish to enter management training schemes and a high proportion of those from electrical engineering wish to enter research (17 per cent), with lower average salaries, may be some explanation of these differences.

Two facts emerge from this exercise: a better theory is needed to explain how students arrive at what they consider to be the appropriate as well as the minimum salary they would accept. Secondly, some counselling or other orientation is probably necessary to familiarise the graduating student with the general manpower situation into which he is about to fit and the adaptations which he will need to make as he moves into the world of work. One hardly expects to spend, from public funds and private sources, well over Rs 30,000, educating a student with expensive laboratories, capital-intensive plant and a staff/student ratio of 1/8 and then see him leave and take a job for Rs 200 a month and whose ambition is limited to earning Rs 900 a month on retirement.

IX

Salaries Throughout the Career

Starting salaries which students think they are worth and those which they would accept, provide an initial insight into their self-image and indirectly, into their level of ambition.

A more accurate measurement of the ambition factor, however, is the salaries students think they will be earning at particular points in their career. For the purpose of this study, these points were stated as the ages of 30, 40 and on retirement. The fact that one student might rate his earnings at Rs 900 per month on retiring, and another at Rs 9,000, would suggest that the ambition and expectations of the second are very considerably higher than those of the first.

Table 5 indicates the average salary for each discipline at each time point. In view of the fact that the scale used for measurement was graphic rather than numerical, the figures would be accurate to about the nearest Rs 50 only.

Average salaries expected on taking the first job follow an order similar to

that stated for the previous series of questions. The average salary which mechanical engineers believe they will get on starting work is Rs 650: textile engineers also see themselves starting at this level. Chemical engineers expect to start at Rs 630, electrical engineers at Rs 600, and civil engineers at Rs 500. The largest percentage of mechanical engineers (32 per cent) see themselves starting at Rs 800, the largest percentage of textile engineers (43 per cent) at Rs 600, and the largest proportion of chemical engineers (40 per cent) and electrical engineers (42 per cent) at the same figure (Rs 600). The largest proportion of civil engineers (47 per cent) indicate Rs 400.

By the time he reaches the age of 30, the average IIT graduate expects to be earning Rs 1,591 per month. By this time, however, the textile engineer leads the group with an average salary expectation of Rs 1,830, the mechanical engineer of Rs 1,610, the electrical engineer of Rs 1,570, the chemical engineer of Rs 1,535; the civil engineer remains at the bottom, with an expectation of Rs 1,410.

Fourteen per cent of textile engineers believe that at the age of 30, they will be earning Rs 3,000 and above. Six per cent of chemical, 6 per cent of civil and 4 per cent of mechanical engineers put themselves in the same bracket, though none of the electrical engineers do so. For four disciplines, the largest number of graduates believe they will be earning either about Rs 1,200 or about Rs 1,600/1,800 at the age of 30. For mechanical engineers, 24 per cent put themselves at a salary of Rs 1,200, and 22 per cent at about Rs 2,200. For textile engineers, 21 per cent place themselves at Rs 1,400, 18 per cent at Rs 1,600/1,800, and 18 per cent at Rs 1,200.

The largest proportion of electrical engineers (32 per cent) believe they will be earning about Rs 1,700 at the age of 30, another 25 per cent, Rs 1,000. 32 per cent of chemical engineers also place themselves at the Rs 1,700 level and another 32 per cent at the Rs 1,000 level. A larger proportion of civil engineers (38 per cent) put themselves in the Rs 1,000 group at 30; a smaller group (14 per cent) in the Rs 1,700 range.

Only 8 students believe they will be earning Rs 700 and below at 30. Two of these are electrical engineers and 6 are civil engineers, two of whom only expect to be getting salaries of Rs 400 to Rs 500.

The average IIT graduate believes

that by the time he is 40, he will be drawing Rs 2,436 per month. The textile engineer is still in the forefront with an average estimate of his own worth at Rs 3,190, the mechanical engineer, Rs 2,500; the civil engineer has moved up to Rs 2,130; the electrical engineer, Rs 1,790, and the chemical engineer, Rs 1,680.

Though some 17 students put themselves in the Rs 5,000-plus bracket at the age of 40, the largest proportion for all disciplines lies between Rs 2,000 and Rs 3,500. This is a coincidental and uniform 61 per cent for textile, electrical, and chemical engineers, 58 per cent for mechanical and 49 per cent for civil engineers. The proportion expecting to be earning Rs 4,000 and more in various disciplines is textile (29 per cent), civil (16 per cent), mechanical (12 per cent), chemical (12 per cent), and electrical (8 per cent).

Fifteen students expected to be earning Rs 1,300 and below at the age of 40. Only one mechanical engineer sees himself at this level (Rs 1,200) and one textile engineer (Rs 900). Three electrical and two chemical engineers expect to be earning between Rs 1,000 and Rs 1,200 at 40. However, 6 civil engineers expect to be earning this amount, and two, to be earning only Rs 800/900. In all, 16 per cent of civil engineers expect to be earning Rs 800 and Rs 1,200 by the age of 40.

The salary which the average IIT graduate expects to earn on retirement is Rs 4,300 per month. This is highest for mechanical engineers (Rs 4,830), followed shortly by textile engineers (Rs 4,780), electrical engineers (Rs 4,556) chemical engineers (Rs 4,238), and lowest for civil engineers (Rs 3,090).

Five students, one in each discipline, see themselves finishing their career with Rs 10,000 a month or above, 51 with at least Rs 5,000 per month. However, the distribution of these hopeful high achievers varies very greatly in one discipline in particular. Of textile students 39 per cent see themselves in the Rs 5,000 a month class on retirement. For three other disciplines, the percentage is reasonably similar varying between 16 per cent and 19 per cent. Of the mechanical engineers, 24 per cent see themselves in the Rs 5,000 per month category.

The largest proportion of four of the five disciplines is that represented by salaries from Rs 2,000 to Rs 3,000, with concentration in the Rs 2,600-plus category; 53 per cent of civil, 47 per cent of electrical, 42 per cent of me-

chanical, and 36 per cent of chemical, but only 14 per cent of textile, see themselves in this category. There is a heavier concentration of civil engineers (33 per cent) in the lower range (Rs 2,000 to Rs 2,200) of this bracket.

A second major concentration is in four disciplines, in the Rs 4,000 to Rs 4,500 range, with a very high proportion of textile engineers (32 per cent) and chemical engineers (27 per cent) and lower proportions of mechanical engineers (20 per cent) and electrical engineers (13 per cent) in this range. Only 2 per cent of civil engineers put themselves in this category.

At the bottom end of the expectation level, only 15 students expect to be getting Rs 1,800 or below on retirement. These included 16 per cent of civil engineering students (including three students expecting only Rs 900 or Rs 1,000 on retirement), 7 per cent of textile engineers, 6 per cent of electrical engineers, 5 per cent of mechanical engineers, and no chemical engineers. The lowest expected salary on retiring for the students in the various disciplines was Rs 2,000 (chemical), Rs 1,600 (mechanical), Rs 1,400 (electrical), Rs 1,200 (textile) and Rs 900 (civil).

X

Comments on Salary Expectations

It is assumed that the salary expectations expressed by students are in terms of present monetary values and indicate standards of living currently represented by these salary levels. A number of comments are therefore permissible.

(1) The fact that the average monthly salary which the IIT graduate expects to earn on retirement is well over Rs 4,000 would seem to confirm a uniformly high level of ambition and expectation for a large number of IIT graduates. Whether realistic or not, such salaries would indicate that the average student is aiming at a higher level of appointment in the public sector, at similar high levels of appointment in the private sector, or possibly, at a self-employed business career. This generalisation is supported by the fact that just over one-half of the sample expect to be earning Rs 3,200 and above per month on retiring, and slightly less than one quarter of the sample expect to be drawing upwards of Rs 5,000 at the same stage. About 40 per cent see themselves retiring in the Rs 2,000 to Rs 3,000 scale. At the other end, less than 7 per cent expect to be earning

less than Rs 2,000.

(2) If these figures are taken as typical of the products of all five IITs, whose combined output of graduates is in the range of 1,200 per year, one obvious question which springs to mind is whether there will be sufficient positions in the economy to satisfy this range of aspirations. If the posts do not materialise, will these students adjust their expectations? Will they emigrate? One can only speculate on these issues.

(3) One of the most interesting aspects of these figures is that, within the total income structure of the country ranging from some Rs 40 to Rs 12,000 per month, there is, on the one hand, a rough similarity between the salaries indicated by 230 individual students at each stage of their career and, on the other hand, some interesting and marked differences expressed by students of different disciplines.

Thus, for example, though the overall major range of salaries indicated at age 30 lies between Rs 800 and Rs 2,300, there are significant differences in the proportions of each discipline placing themselves at any particular point on the scale.

It is worth singling out this factor of disciplinary differences for the following reason. When students come to the institute, as has been seen, the majority opt for one or two disciplines. For the last few years this has been mechanical and electrical engineering. Thus, all have a similar aspiration, namely, to study the most popular discipline and the one which they see as having the best employment prospects. Four years later, however, they have all been to a greater or less extent socialised into their allocated discipline and conditioned into raising or lowering their level of aspirations as a result of their prolonged association with the discipline and, possibly, their perceived chances of employment and promotion in the future. Choice of the right discipline on entry would, therefore, seem to have considerable importance in helping to form aspirations.

It is also worth noting in this context that the chances of graduating with a good first class degree also vary considerably between disciplines. As Table 6 indicates, for these particular students graduating in 1970, the chances of obtaining a first class degree were 80 per cent for mechanical engineers, 54 per cent for electrical engineers and 50 per cent for textile engineers and technologists. For chemical and civil engineers, they were only 35 per cent. The chances of getting a second class degree,

however, or even failing, were greater for chemical and civil engineers.

Another point needs to be noted. In the previous paper¹¹ it was pointed out that as many as 40 per cent of students entering the IIT placed higher priority on going to one particular IIT of the five available than they did on getting into any particular discipline. The data in this paper would suggest that students might pay quite a high price for this particular form of immobility. Accepting 'any discipline' in order that one might 'stay at home' would seem to have short-sighted consequences.

(4) Whether perceived employment opportunities are the major determinant in deciding levels of salary expectations and aspirations is a moot point. Is the generally low aspiration of civil engineering students due to the unemployment situation or to factors connected to their own social and economic background? Is the consistently high level of mechanical and textile students a result of the present buoyancy in their respective industries? If this is so, and if the electronics and electrical engineering industry has also a bright future ahead, what is the reason for the consistently lower salary aspirations of the electrical engineering students?

XI

Expected Unemployment before the First Appointment

Table 7 indicates the length of time students in each discipline expect to be unemployed before taking up an appointment. It is suggested that this data is useful in two ways: firstly, if a specified period is considered the norm for any one discipline, a student is likely not only to make the most intense efforts to obtain a job within that norm but also, once this is past, he is likely to lower his salary expectations in accordance with what he sees to be an overfull market. This data is important for, as Blaug and others point out, it is certainly worthwhile to 'stand the strain' of unemployment, perhaps even for a long time, rather than simply go into the first job that pays a living salary.¹²

Secondly, perceptions of periods of unemployment also indicate the student's own evaluation of the buoyancy of the market in his particular profession.

Either because of plans to undertake postgraduate study or because of confidence in securing employment, 26 per cent of the sample indicated that they

would not be unemployed at all. Whilst this was highest for mechanical and textile engineers at between 29 per cent and 27 per cent, it was lowest for civil engineers (3 per cent).

The largest group (33 per cent) thought they would be unemployed for eight weeks or less. Of these, 32 per cent were mechanical, 23 per cent electrical, 17 per cent chemical, 13 per cent textile and 15 per cent civil.

Of the 7 per cent of students who thought they would be unemployed for 5 to 8 months, only 6 per cent were mechanical and textile students, but 23 per cent were electrical and 47 per cent were civil engineering students. Out of the 7 per cent who thought they would be out of work for one year or more, 59 per cent were civil engineers, 12 per cent were mechanical, 12 per cent were electrical, 18 per cent were chemical but none were textile engineers.

The average period of unemployment indicated by the entire sample was just over eleven weeks, though this varied with textile engineers being the most confident of entry into the profession with a period of only three weeks, mechanical engineers with approximately 8 weeks, electrical engineers 9 weeks and chemical engineers 11 weeks. Civil engineering students thought that on average they would be unemployed for over 21 weeks. Calculated in terms of 21 weeks for each of 49 students, this represents a possible total work loss of about 20 years of professional manpower skills.

XII

Plans after Graduation: Employment and Post Graduate Studies

Fifty per cent of the students indicated that they would seek employment; however, 10 per cent of these also indicated that they were, in addition, planning to undertake postgraduate education, presumably if they changed their minds before the year ended, or if they did not get satisfactory offers. Thus, 60 per cent in all could be considered as planning to undertake higher studies.

Approximately three-quarters of those seeking work intend to look for employment as engineers of one kind or the other in their own discipline. The remaining one-quarter intend to look for openings in management training schemes, some of which would be technical management, some not.

The percentage of electrical engineers seeking straight engineering jobs

was considerably higher than the average (90 per cent) and the percentage of textile engineers seeking similar 'straight engineering' jobs considerably lower (57 per cent). The highest percentage of any discipline seeking management training appointments was in chemical engineering, (32 per cent), mechanical engineering (27 per cent) and the lowest in electrical engineering (16 per cent).

At least 50 per cent and possibly 60 per cent of students were intending to undertake postgraduate study. The figure was highest for civil engineers (65 per cent of the class) and lowest for electrical engineers (38 per cent). Although most students intending postgraduate education indicated the country they would like to study in, a much smaller percentage indicated what they would like to study. Of the 97 students (42 per cent of the sample) who stated their intended course of study, 74 per cent aimed to take this in engineering or related disciplines (e.g. MS in computer science), 26 per cent in management or business administration.

Out of 129 students expressing a preference for higher studies, 84 per cent wished to study abroad and 16 per cent in India. Of those going abroad, 77 per cent opted to study in the USA and only 2 per cent to 3 per cent each in the UK, Canada or 'elsewhere'.

About 7 per cent of students wanting to take up postgraduate education wished to continue at the IIT and another 8 per cent wished to go to another Indian institute or university.

Two comments are permissible on these findings. First, it would appear that, as these students enter their final year, a minimum of 65 per cent and a maximum of 80 per cent are planning to take up 'straight engineering' jobs, either in immediate employment or for postgraduate studies; a minimum 20 per cent and a maximum 30 per cent are planning to look for posts in management training, or to take up management or business administration postgraduate studies. An allowance of a maximum 5 per cent from either group may go into various activities. The propensity to take up 'straight engineering' either as employment or in postgraduate studies, is strongest among electrical engineers and the propensity to take up management, strongest among textile and chemical engineers.

Secondly, for the 60 per cent of the sample who plan to do postgraduate study, the fact of going abroad has more significance for two-thirds of them than the particular subject they

are going to study. Thus, although space was provided on the questionnaire for students to state the course which they wished to take up, almost two-thirds of those opting for further studies left this space blank and indicated only the location (generally in the USA) of the intended field of study.

XIII

Summary and Comment

Some attempt can now be made to generalise about the ambitions and outlook of the IIT student as he began his final year in July 1969, prior to graduating in June 1970. Perhaps the first thing to say is that, though certain generalisations are possible, there are very considerable differences between students within any one particular engineering discipline and, more particularly, between students in each of the five disciplines.

When these students joined the IIT in 1964 or 1965, they did so for a variety of complex and interrelated reasons. Some joined primarily because of the attraction of engineering, others, primarily because of the attraction of the IIT. They joined because engineering seemed to provide good job opportunities in the future, because they had a genuine interest in engineering, because the profession had high status and the financial rewards were good. They also joined because of ignorance about other careers, because of the prevailing 'craze' for engineering, because of the influence of their parents and advice from school; they chose engineering because other disciplines in arts and science had a poor image, because the marriage prospects of engineers were good and because of the good educational opportunities offered by the IIT.

They came to the IIT because they had heard of its reputation and prestige, because they believed IIT graduates would be preferred for employment, because going to the IIT was a prevailing fashion, and because the competitive examination offered them a challenge and opportunity to show their mettle. They went there because it permitted them to remain in their hometown, because the campus was residential and offered them freedom from home; the IIT had also impressive buildings and well-laid out gardens and lawns and because it had good laboratories and workshops. Students joined because they believed the IIT to have bright students, and because there was no student unrest. The IIT was chosen

because it provided a good passport to go abroad; it also had good accommodation, library and some students had relatives there to help them. Because of these and other reasons students came to the IIT and began to study engineering. Those with an identified vocational interest in engineering were a minority. As they began their final year, from 73 per cent to 98 per cent of students in each of the five engineering disciplines, were, depending on the discipline they belonged to, more or less satisfied with the discipline they were in. They were satisfied primarily because of the employment prospects which the discipline offered; secondly, because they like the discipline and had a real, vocational interest in it; and, thirdly, though of less importance, because some of them thought the courses and subjects were interesting. Only 11 per cent of the sample were definitely dissatisfied with their discipline either because of their lack of interest in the courses or because they would have preferred to be in or think they would have done better in other disciplines, and because employment prospects were poor in their discipline.

Though only 11 per cent express definite dissatisfaction with their discipline, over 40 per cent would change to another discipline if given the opportunity, free of cost, to take a one-year course to do so. Half of these would like to change to other disciplines within the institute, (especially mechanical and electrical engineering) and the others, to disciplines which, in fact, they would legitimately be able to take up at postgraduate level.

Just over one-half were definitely committed to taking up engineering for their profession. About one-third would be willing to take up what they perceived as 'non-engineering jobs'; the remainder did not respond. Of the 'uncommitted', about 30 per cent were interested in jobs in management and business administration. Another 20 per cent would like to go into such services as the IAS or IFS. Another group would prefer administrative posts of one kind or another. A small handful (10 per cent of the uncommitted) would go into the arts and into farming. Two would take up anything which offered a good income and one would go into social work. Nineteen out of 181 students (about 11 per cent) would seem to be 'misfits' in engineering, if the definition of this profession is interpreted in a traditional fashion.¹³ However, these 19 are unevenly distributed among the disciplines.

Life Insurance Corporation of India

Statement by the Chairman, Shri T A Pai

THE following is the Statement by Shri T A Pai, Chairman, at the Hundred and Seventieth Meeting of the Members of the Life Insurance Corporation of India held in Bombay on August 31, 1970:

The draft of the Annual Report and the Statement of Accounts for the period April 1, 1969 to March 31, 1970 are before you for consideration.

This is my first opportunity of placing before you this Report since taking charge of the Corporation in March 1970 as its Chairman. The Board of the Corporation reconstituted by the Government of India in 1968-69 continued to serve the Corporation during the period under review, excepting for Shri A Baksi who continued to be a Member of the Corporation upto 22nd October 1969 when he resigned and Shri B N Adarkar was nominated by the Government to fill up the vacancy. Shri C H Bhabha was on the Board upto June 24, 1970 when he resigned. Dr R K Hazari was nominated on the Board with effect from May 16, 1970. I wish to place on record my appreciation and thanks to all the Members of the Board for the co-operation and advice which I received from them during this period. I also take this opportunity of welcoming the new Members.

The country had, as we know, good monsoons for the third successive year, bringing more prosperity to rural areas, and reducing the country's needs for food imports, though the rainfall was not adequate in some parts of the country. Ample buffer stocks of foodgrains could be built to cushion the impact of fluctuations in the future. The recovery in industrial production also has been distinctive. By and large, the development in our country during the year under review has been encouraging with the result that the external payments position also much improved. Our exports also registered improvement during the year. Prices have been more or less stable. In the background of the above conditions, the Corporation has made appreciable all-round progress in the year 1969-70.

NEW BUSINESS

New business is the life blood of an insurance organisation. With our mission to spread insurance, the num-

ber of persons to whom we carry our services is an important index of our activity. During 1969-70, new business of Rs 1,090.17 crores was introduced, of which 95.0 per cent was completed, resulting in new sums assured of Rs 1,036.08 crores under 14.01 lakh policies as against Rs 929.35 crores of completed business under 14.54 lakh policies in 1968-69.

Out of the year's new business, nearly two thirds of the total number of policies issued in India, 9.12 lakh policies, assuring Rs 583.75 crores were sold to persons insuring for the first time — a commendable effort indeed for extending the protection of economic security to persons needing it.

SIZE OF POLICY

The average sum assured per policy increased to Rs 7,394 in 1969-70 as against Rs 6,390 in 1968-69. About 70.0 per cent of the total number of new policies issued in the year were for sums assured between Rs 1,000 and Rs 5,000. The corresponding figure for 1968-69 was 74.0 per cent.

RURAL BUSINESS

Based on the classification of rural areas as adopted in the 1961 census, 4.62 lakh policies covering 33.0 per cent of the total number of policies issued in 1969-70 in India were issued to people in the rural areas. By sum assured Rs 251.76 crores or 24.5 per cent of our total new business was in rural areas. As against this, corresponding figures for the previous year were 4.77 lakhs of policies assuring a sum of Rs 235.12 crores, being 25.5 per cent of the total sum assured and 32.9 per cent of the number of policies issued. It will be significant, in this context, to mention that 71.0 per cent of the total number of new policies sold in the rural areas were to persons who took insurance for the first time, the proportion for urban areas being 52.3 per cent.

The scheme of collection of premia through selected Post Offices in rural areas, where adequate banking facilities do not exist, is operating satisfactorily in 15 States and the total amount collected in this way during the year amounted to Rs 1.23 crores as against Rs 1.14 crores in 1968-69.

NON-MEDICAL BUSINESS

During the year, 6.45 lakh policies,

being 46.2 per cent of the total number of policies issued in India, were issued under the Non-Medical Schemes. In value, they amount to Rs 223.65 crores, which is 21.8 per cent of the total sum assured in India. The amount of Non-Medical business in 1968-69 was Rs 207.96 crores — 22.6 per cent of the total sum assured in India.

For the first time, the Non-Medical scheme has been extended to cover female lives also, as, during the year, the Corporation took a decision to entertain proposals under this scheme from educated ladies employed in Government or private organisations upto a maximum sum assured of Rs 5,000 subject to the same conditions as applicable to Non-Medical Special Scheme for men.

The Corporation also increased the limits of maximum sum assured under the Non-Medical Scheme for male lives to Rs 5,000 in the case of Non-Medical General; Rs 10,000 in the case of Non-Medical Special and Rs 20,000 in the case of commissioned officers in Armed Forces subject to the usual conditions.

SALARY SAVINGS SCHEME

As against 3.74 lakh policies assuring Rs 164.96 crores issued in 1968-69, 3.76 lakh policies amounting to Rs 177.33 crores were issued under the Salary Savings Scheme in 1969-70. The Scheme, which gives the benefit to employees of the facility of deduction of premia from their salary is applicable to a very large number of industrial and commercial as well as semi-Government organisations. The Scheme is operating for State Government employees of Andhra Pradesh, Gujarat, Haryana, Kerala, Maharashtra, Mysore, Orissa, Punjab, Rajasthan, Tamil Nadu and Uttar Pradesh. The Scheme which had been introduced to non-gazetted employees of the Central Government in their offices at Bombay, Calcutta, New Delhi and Madras in 1968-69, has been extended to non-gazetted employees in all the Central Government offices throughout India with effect from 1st January, 1970.

CORPORATION'S BUSINESS ABROAD

The Corporation continued to transact new business in Fiji, Hong Kong, Kenya, Malaysia, Mauritius, Nepal, Singapore, Uganda and the

The kind of job which most students (52 per cent) would like to make their career in is management and administration. Next in order of popularity is manufacturing (13 per cent) and research (10 per cent). From 5 per cent to 8 per cent of the sample would like to work in each of design and survey, sales and maintenance. Though this would support those who believe the IIT should produce technologically-oriented managers, it gives food for thought to those who would prefer an orientation towards manufacturing and engineering entrepreneurship.

Fifteen per cent of the students were assured employment on graduation, mainly by their immediate family and mainly in a capacity related to their engineering training.

The average salary which the IIT student believes himself to be worth on graduation is Rs 654. The most expensive man thinks he should get Rs 1,500 and the cheapest, Rs 300. However, when it comes to actually accepting salaries, the average pay which the IIT graduate would take falls to Rs 516. Two students would not accept less than Rs 1,000 though one would accept Rs 200.

If salaries expected at the ages of 30, 40 and on retirement are any indication of aspirations and ambitions, then the average IIT student is ambitious. The average salary which he expects to earn on retirement is Rs 4,300 per month. However, this figure is largely determined by about 23 per cent of the sample who put themselves in the range of Rs 5,000 and above. The largest proportion of students (about 40 per cent) see themselves on a salary between Rs 2,000 and Rs 3,000, most of them at about Rs 2,600. Only about 9 per cent of the sample believe they will be earning Rs 1,800 or below on retiring.

Though the average IIT student recognises that he may be unemployed for some time on graduation, the majority (excluding the civil engineers), believe they will have obtained a job within less than two months after leaving the IIT. Twentyfive per cent do not see themselves as being unemployed at all (possibly because they intend to take up postgraduate studies), though others (7 per cent of the sample and mostly civil engineers) believe they will still be out of work one year after leaving.

After graduation, about half of the students are planning to look for jobs and at least half intend to take up postgraduate studies. Of those intending to seek work, three quarters would like to take up a 'straight engineering' job;

the other quarter would look for places in management training schemes or similar management posts.

Of the 50 per cent or 60 per cent who are planning to undertake postgraduate studies, almost 85 per cent would go abroad, all except 8 per cent opting for the USA. The remainder would like to stay in India. For 60 per cent of those intending to do postgraduate studies, the fact of going abroad would seem to be of more significance than the particular course which they wish to take up. Of the others, about 74 per cent wish to pursue higher studies in engineering and related disciplines and 26 per cent in management or business administration.

Few further comments are needed on these data. As with the previous article, the major function of this paper has been to establish a factual framework within which more sophisticated research can be attempted on some of the issues raised. If any 'lessons' are to be drawn from these findings, attention might be drawn to the fortuitous way in which careers are chosen, the lack of informed career advice available to the school-leaver and the fragile loyalty to a career with which a small, yet not inconsiderable, number of students begin — and even continue — their professional education. In a fluctuating economy where manpower planning is necessarily such a hazardous process, the occupational flexibility which many of these students would seem to possess can be viewed both as an asset, as well as a liability, depending on one's viewpoint. Whichever way one looks at it, it is clear that educational systems and especially curriculae have to be broad and flexible enough to provide for this occupational mobility. For manpower planners as well as for policy-makers in engineering education, there are seeds of both comfort and discomfort in these findings.

Notes

- 1 See especially S D Tripathi: 'Graduates of Indian Institutes of Technology in India and Abroad — A Study of Their Utilisation Pattern', *Manpower Journal*, Vol III, No 3, October-December, 1967; para 29, page 120.
- 2 A D King: "Elite Education and the Economic: IIT Entrance, 1965-70", *Economic and Political Weekly*, August 29, 1970.
- 3 Evan, William M: "The Engineering Profession: A Cross-Cultural Analysis" in Perucci, R and Gerstl, Joel E: "The Engineers and the Social System", John Wiley and Sons, New York, 1969, p 110.
- 4 A D King, *op cit*.
- 5 Sunanda K Datta-Ray: "Too Many Engineers", *The Statesman*, May 29, 1970.

- 6 S D Tripathi, *op cit*.
- 7 Warwick Brophy: "Engineer Shortage", *The Times*, September 28, 1967.
- 8 See *Technical Manpower*, Bulletin of the Division for Scientific and Technical Personnel, CSIR, Vol XI, No 12, December 1969.
- 9 M Blaug, P R G Layard, M Woodhall: "The Causes of Graduate Unemployment in India", Penguin Press, London, 1969, p 238.
- 10 A D King, *op cit*.
- 11 *Ibid*.
- 12 Blaug, *op cit*.
- 13 It is necessary to qualify this statement for the following reason: the student who indicated a preference for a "non-engineering job" in "writing" will shortly leave for the USA to start a Master's degree in Journalism. In view of his interest in science writing and technical journalism, as well as the need expressed at the CASTASIA conference for the popularisation of science, his contribution to national scientific and technological growth might well be much greater than that of someone going into engineering "as traditionally defined".

Continued from last page, col 3

trations organised in a number of States with the assistance of the extension machinery, farmers' days, festivals, seminars, etc. In particular, preparations are being made for handling nearly a million tonnes of urea to be produced every year from 1973 onwards in the Eastern Marketing Zone comprising the States of Bihar, West Bengal, Assam and Orissa.

The Wage Board award has generally not been acceptable to the workers. But in many units/divisions unions have signed agreements with the management for continuing with the Government scales of pay and dearness allowance with a minimum wage of Rs 170 recommended by the Wage Board. Industrial relations, on the whole, have been satisfactory.

In conclusion, I am happy to put on record my gratitude to you, the shareholders, for the confidence, trust and understanding extended to your Directors and to me throughout. I also express my gratitude for the co-operation and assistance I received from the officers and employees of the Corporation in the matter of formulation and implementation of your Corporation's policies and programmes. I have no doubt that these will sustain us in facing the challenging problems posed by the growing activities of an expanding organisation in the years to come.

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

United Kingdom. During the year the Corporation issued 4661 policies assuring Rs 10.28 crores in the countries abroad, the corresponding number being 4203 policies for Rs 8.70 crores in 1968-69.

BUSINESS IN FORCE

The total business in force as on March 31, 1970 was Rs 6,425 crores under 140.41 lakh policies as against Rs 5,725 crores under 134.53 lakh policies on March 31, 1969. The increase in the total business in force during the year under review was about 12.4 per cent as against about 9.1 per cent in 1968-69 over that of 1967-68.

LAPSE RATIO

The ratio of lapses to mean life insurance business in force decreased from 6.3 per cent in 1968-69 to 5.9 per cent during the year under review. In 1967-68 the lapse percentage was 7.0 while in 1966-67 it was 7.4. Efforts made by the Corporation to conserve business are reflected in the progressive improvement recorded in the last three years.

LIFE FUND

As on March 31, 1970 the Life Fund of the Corporation amounted to Rs 1,611.04 crores as against Rs 1,434.47 crores in the preceding year, thereby registering an increase of Rs 176.57 crores. In terms of percentage, this increase comes to 12.31.

TOTAL ASSETS

The total assets of the Corporation as on 31st March 1970 amounted to Rs 1,771.78 crores as against Rs 1,577.33 crores as on 31st March 1969.

SETTLEMENT OF CLAIMS

Death Claims and Maturity Claims amounting to Rs 18.77 crores and Rs 62.67 crores respectively were intimated to the Corporation during 1969-70. Out of these claims and those outstanding at the end of the previous year, death claims and maturity claims for Rs 18.29 crores and Rs 62.00 crores respectively were paid by the Corporation during the year as against death claims and maturity claims for Rs 15.61 crores and Rs 51.19 crores respectively for the preceding year.

Special efforts were made to settle the claims expeditiously. The ratio of outstanding claims to claims intimated during the year dropped from 86.8 per cent in 1968-69 to 79.8 per cent in 1969-70 in respect of death claims and 17.7 per cent in 1968-69 to 14.9 per cent in 1969-70 in respect of maturity claims. On the whole, the ratio of outstanding claims as on 31st

March 1970 was 29.8 per cent of the intimated claims as against 34.8 per cent on 31st March 1969.

INCOME AND EXPENSES

The total income of the Corporation during the year 1969-70 amounted to Rs 346.35 crores made up of Rs 260.41 crores of premium, Rs 78.43 crores of Interest, Dividends and Rents and Rs 7.51 crores of miscellaneous income. As against this, the amount of total benefits paid to policyholders was Rs 92 crores, Expenses of Management Rs 72 crores and Miscellaneous Outgo Rs 1 Crore.

The gross and net rates of interest realised on the mean life insurance fund were 6.06 per cent and 5.57 per cent respectively against 5.94 per cent and 5.31 per cent respectively in the preceding year.

Broadly, out of every rupee received by the Corporation, 75.4 paise came from the policyholders and 22.6 paise from Interest on accumulations of their funds. Out of every rupee of the Outgo, 27.0 paise were paid towards policyholders' benefits, 21.1 paise incurred as Expenses of Management and 51.7 paise were added to the life insurance funds. In the previous year these were 25.6 paise, 21.1 paise and 56.4 paise respectively.

INVESTMENTS

The total book value of the investments of the Corporation as at 31st March 1970 was Rs 1,528.66 crores, thereby recording an improvement of Rs 169.71 crores over the figure of 1968-69. Of this, the total book value of the investments pertaining to Life and General business was Rs 1,514.26 and Rs 14.40 crores respectively. Of the total investments, 73.6 per cent was in the Public Sector, 9.5 per cent in the Co-operative Sector, 0.4 per cent in the Joint Sector and 16.5 per cent in the private sector. The investment reserve account amounted to Rs 31.23 crores. The Corporation agreed, during the year, to underwrite 104 new issues to the extent of an aggregate amount of Rs 5,302.18 lakhs.

While safeguarding the interests of the policyholders, the Corporation has continued to play its role in the social and economic development of the country. With this end in view, substantial amounts have been lent for housing, water works and drainage, co-operative sugar factories, industrial estates, State Electricity Boards, etc. It will be of interest to mention that the Corporation's total contribution to housing development alone, in India, by way of loans to State Governments and Co-operative Hous-

ing Finance Societies and loans under other Schemes, etc, amounted to over Rs 257 crores as on 31-3-1970.

The scheme of rates of interest on mortgage loans has been revised by the Corporation. The effective rate of interest has been raised by half per cent in all schemes excepting the Staff Housing Scheme. Instead of the rebate of 1 per cent which was hitherto being allowed for punctual payment, an additional interest upto 2½ per cent per annum would be levied under all schemes in case of default by mortgagors in payment of interest and/or payment of instalments of repayment of principal, policy instalments, etc.

FINANCING OF HOUSING SCHEMES

The Corporation advanced during 1969-70 a sum of Rs 14.80 crores to State Governments for financing various housing and land acquisition Schemes. It also advanced amounts totalling to Rs 15.70 crores to Co-operative Housing Finance Societies and other authorities for financing housing co-operatives in various States. The advances during 1968-69 under these heads were Rs 12.30 crores and Rs 14.50 crores.

The Corporation's Own Your Home Scheme was extended during the year to 5 more centres bringing the total number of centres to 159. It covers all the cities and towns in India with a population of one lakh and above according to 1961 Census and also some developing centres with a population of less than one lakh. During the year 953 loans amounting to Rs 288.11 lakhs were sanctioned to policyholders for construction or purchase of houses. So far, in all, 6031 loans amounting to Rs 1,714.79 lakhs have been sanctioned under this Scheme.

Likewise, the Corporation's Mortgage Scheme for construction of property continued to operate in 57 centres. During the year, 181 loans amounting to Rs 95.00 lakhs were sanctioned. So far, in all, 3045 loans amounting to Rs 2101.53 lakhs have been sanctioned under this Scheme.

The Corporation's total contribution to housing development in India by way of loans to State Governments and Co-operative Housing Finance Societies and loans under other schemes and its own building construction upto 31st March 1970 amounted to over Rs 257 crores.

EXPENSE RATIO

The overall expense ratio for the year for life business was 27.69 per cent as against 27.54 per cent in the previous year. The renewal expense

ratio comes to 16.15 per cent as against 15.91 per cent in the previous year. Considering the prevailing inflationary conditions and their effect on staff salaries and allowances as also increase in other items of expenditure, the rise in the renewal expense ratio can only be considered marginal. However, the full effect of the recent increases in salaries and allowances consequent on the settlements arrived at with various categories of staff can only be felt in the current and ensuing years. It is hoped that the impact of rise in costs will be absorbed through higher output of work, increased new business and improved conservation of existing business.

GENERAL INSURANCE

During the year, the Corporation secured a gross direct premium of Rs 18.04 crores as against Rs 16.19 crores in the previous year. Of this, Rs 4.52 crores was secured under Fire Insurance, Rs 7.64 crores under Marine and Rs 5.89 crores under Miscellaneous insurance. The total net premium collection during the year amounted to Rs 6.01 crores as against Rs 5.71 crores in 1968-69.

The net claims during the year amounted to Rs 73.53 lakhs under Fire, Rs 106.94 lakhs under Marine and Rs 62.35 lakhs under Miscellaneous insurance. The total net claims amounted to Rs 242.82 lakhs in 1969-70 as against Rs 346.85 lakhs in 1968-69. A sum of Rs 51 lakhs has been added to the reserves.

The profits transferred to the Profit and Loss Account were Rs 2.12 crores from Fire, Rs 19.53 lakhs from Marine and Rs 59.01 lakhs from Miscellaneous insurance, making a total of Rs 2.90 crores. After making adequate provisions for Reserves and Taxation, a balance of Rs 44 lakhs is payable to the Central Government.

Although the Corporation was free to function as a non-tariff insurer, it was voluntarily following the Tariff Rates. However, with the coming into force from 1st January, 1969, of the Insurance Amendment Act, 1968, the provisions of that Act relating to Tariff Advisory Committee and Control of Tariff Rates have been made applicable to the Corporation and it is now obligatory for the Corporation to follow the Tariff Rates.

STAFF

The Government of India had referred to the National Industrial Tribunal on November 28, 1968, the Charter of Demands of Class III and Class IV employees which had been submitted by one of their Associations. At a stage when the adjudication proceed-

ings had reached an advanced stage of hearing, all the employees' unions which were made parties to the adjudication, expressed their desire for an amicable settlement of the dispute through negotiations. Accordingly, bipartite negotiations were held between the Management and the Unions in April-June 1970 which culminated into a settlement covering all the items referred to the Tribunal. A separate settlement in respect of bonus was also reached. These settlements have come into force retrospectively from 1st April, 1969 and involved a recurring additional annual expenditure of about Rs 5 crores, to begin with, which would go upto Rs 5.84 crores within two years when an additional increment will be granted to those employees who did not get stage-to-stage fixation. On an application to the Tribunal by the parties, the Tribunal has given its award in terms of this settlement excluding stenographers whose dispute is still pending.

Under the settlement now reached, the Unions have pledged themselves to co-operate in creating a healthy climate of industrial relations with a view to improving the efficiency of the Corporation and its service to policyholders.

Fresh negotiations were held with the representatives of the Federation of LIC of India Class I Officers' Associations also and a settlement was arrived at providing for revised basic scales and allowances. The rate of bonus for Class I Officers was also brought in line with the rate of bonus of Class III and Class IV employees subject to a maximum bonus of Rs 1,200. The annual cost of these revisions, which are effective from 1st April, 1969, would be approximately Rs 83 lakhs.

The National Federation of Insurance Field Workers of India representing the Development Officers (Class II employees) has assured the Corporation that they would strive wholeheartedly to exceed the target of new business of Rs 1,200 crores for the year 1970-71. All the remaining points in the Agenda submitted by the Federation in November 1968 will be negotiated as early as possible.

The number of employees in the service of the Corporation in India was 51,338 as at March 31, 1970 as against 51,667 as at the end of the previous year. The slight fall in the number of employees is mainly because the recruitment to the cadre of Development Officers has been practically stopped.

The gross salary bill of the Corporation for the year 1969-70 in India

was Rs 40.93 crores as against Rs 35.44 crores in 1968-69.

ELECTRONIC DATA PROCESSING

Conversion of policies to the computerised servicing continued according to schedule. All policies issued by the Bombay Divisional Office (other than those under Salary Savings Scheme) numbering about 8.25 lakhs are now being serviced by the Computer. System development for conversion and servicing of Salary Savings Scheme policies serviced by the Bombay Divisional Office has also been completed. The entire work relating to commission billing for Bombay Division agents is now being done through the computerised system. Since January 1970, commission cheques are also being prepared by the Computer.

PUBLICITY

In our vast country, insurance consciousness among the people is still at a low ebb. Strenuous efforts are needed to make the message of insurance widely known, particularly in the rural areas. The Corporation is continuing its efforts to popularise the message of insurance through conventional as well as new methods of publicity. In addition to the planned advertisement campaigns in a large number of publications including those published in the regional languages, effective outdoor publicity has been conducted through publicity vans, films and by participation in fairs, festivals and exhibitions. Use of media like bus panels, hoardings and neon signs was further extended. Puppetry, too, is being extensively used as a medium of publicity in the Northern and Central Zones. A greater use of commercial broadcasts was made through all the Stations of All India Radio where this facility is available.

Life Insurance in India will be completing hundred years of its existence in December 1970. The Corporation has decided to hold the Centenary Celebrations in a befitting manner and to bring out a Commemoration Volume.

THE FUTURE

What of the future? We have so much to achieve compared with what we have achieved over these 14 years. Social security through insurance has to be carried to millions of homes in this country. That's why we have shifted our emphasis from policies to persons. Through individual insurance and group insurance schemes we shall strive to achieve this objective. A number of new

Group Term Insurance Schemes will be introduced during this year catering to different categories of people. The quantum of premium income mobilised by the LIC has assumed considerable importance as a means to mobilise the savings of the people and help accelerate the economic growth. An all out effort by LIC in this direction is called for.

We are now consciously directing larger investments towards socially desirable purposes like housing, electricity development, water supply and drainage. LIC's resources will help to develop the social and economic infrastructure to build up our people. We shall, at the same time, maximise our returns on our investments in

the interest of policyholders.

Life insurance business is a service industry that exists for the policyholders. People have a right for prompt settlement of claims, better policyholders' servicing and, in fact, the type of service which would build up insurance-mindedness in our people. We shall endeavour continuously for greater efficiency in our offices and build up our development personnel and agents to fulfil the expectations of the public.

CONCLUSION

I take this opportunity to record my appreciation and thanks for the co-operation and advice I have received from the Members of the Corpo-

ration and my colleagues on the Investment and other Committees.

I have also great pleasure in recording my appreciation of the services rendered by the Officers and Staff at all levels and by the Agents of the Corporation, without whose co-operation and application to work, results as stated above would not have been possible. I am sure they will continue their exertions for the objective of spreading the message of insurance to a still larger number of people. Though our performance has been good, much more still remains to be done.

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

The Fertiliser Corporation of India Limited

Speech of the Chairman, Shri Satish Chandra

THE following is the text of the Speech delivered by Shri Satish Chandra, Chairman and Managing Director, The Fertiliser Corporation of India Limited, on August 29, 1970 at New Delhi:

GENTLEMEN,

I have great pleasure in welcoming you to this 14th Annual General Meeting of the Corporation. The Directors' Report and Audited Statement of Accounts of the Corporation for the year ended March 31, 1970 have been circulated to you and, with your permission, I shall take them as read.

I am glad to inform you that during the year 1969-70 your Corporation made a gross profit of Rs 18.23 crores which, after providing for depreciation and interest, resulted in a net profit of Rs 2.52 crores. The turnover of the Corporation stood at the record figure of Rs 65.80 crores as against 48.79 crores during the previous year. Against an authorised capital of Rs 200 crores, the Corporation's paid up capital, including advances by Government of India towards equity shares, was Rs 96.55 crores.

Our Nangal and Gorakhpur units have yielded profits of Rs 7.18 crores. As in the previous years, the performance of Nangal was the best among the production units. The unit's production during the year not only exceeded its target but also exceeded its rated capacity of 79,540 tonnes nitrogen slightly by 225 tonnes. Production of heavy water also was an all time record at 15,846 kgs, against the rated capacity of 14,100 kgs.

Gorakhpur's production during its first full year of operation was 72,710 tonnes of nitrogen, or 91 per cent of the rated capacity of 80,000 tonnes.

Sindri has suffered a marginal loss of

Rs 26 lakhs. Its production during the year was 87,306 tonnes of nitrogen against the attainable capacity of 99,250 tonnes, i.e., production was achieved at about 88 per cent of the attainable capacity. Sindri has shown progressive improvement in production from 1967-68 onwards.

Trombay and Namrup, on the other hand, produced only half of their rated capacity. Trombay produced 49,012 tonnes of nitrogen and 16,988 tonnes of P_2O_5 , while Namrup produced 22,920 tonnes of nitrogen. They together suffered losses totalling Rs 4.40 crores. For Namrup it was, however, the first full year of commercial operation. Your Directors are deeply concerned over the performance of these two units and are continuing with their efforts to improve it.

The internal resources of the Corporation arising from its revenue surpluses and the amounts allocated towards depreciation by the production units during the year amounted to Rs 11.76 crores as against Rs 12.96 crores during the previous year. Total internal resources generated since the inception of the Corporation's oldest unit at Sindri amount to Rs 95.64 crores including Rs 79 crores of depreciation and Rs 13.29 crores of Development Rebate Reserve.

There are at present four major projects under construction by your Corporation. These are Durgapur in West Bengal, Barauni and Sindri Rationalisation projects in Bihar and Namrup Expansion in Assam. Of these Durgapur is expected to go on stream early in 1971 and Barauni and Namrup Expansion a year later. Problems of indigenous supply of equipment are proving very difficult.

In addition, our Planning and Development Division has started work on the coal-based plants at Talcher and Ramagundam. Work on the third coal-based plant at Korba will start later. Each of these projects will have the capacity of 900 tonnes per day of ammonia and 1500 tonnes per day of urea. Government have also approved recently the Trombay Expansion project based on ammonia imported from Iran and Kuwait. This project will yield 132,000 tonnes of both nitrogen and P_2O_5 per year. Preparatory work in respect of two other major projects at Haldia and Nangal has also been taken in hand. For Haldia a protocol has been signed with Ensa-Polimex group for identifying and tying up supplies and services on the basis of Franco-Polish credits. Two licence agreements have also been signed with Montecatini Edison, one for an ammonia plant and another for a urea plant. Action is being taken for firming up the specifications of equipment and for concluding the other licence agreements. In respect of Nangal Expansion, discussions regarding financing are continuing with the World Bank.

The Marketing Division of the Corporation was strengthened during the year and a large network of dealers was established in various parts of the country. At the same time, full utilisation was made of the existing co-operative and other official institutions and organisations. Marketing research and survey cells cum statistical sections were set up in the Marketing Division at the Head Office, in the Eastern Marketing Zone and in Trombay. Large-scale promotional efforts have also been undertaken comprising of fertiliser demon-

Continued on page 1510, Col 3

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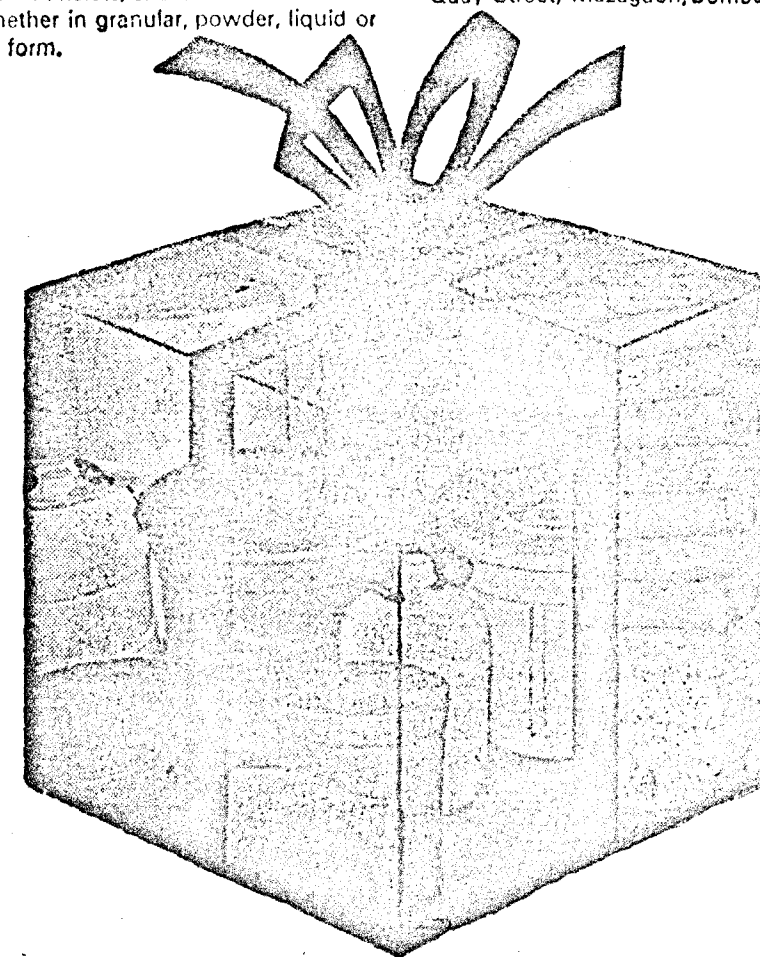
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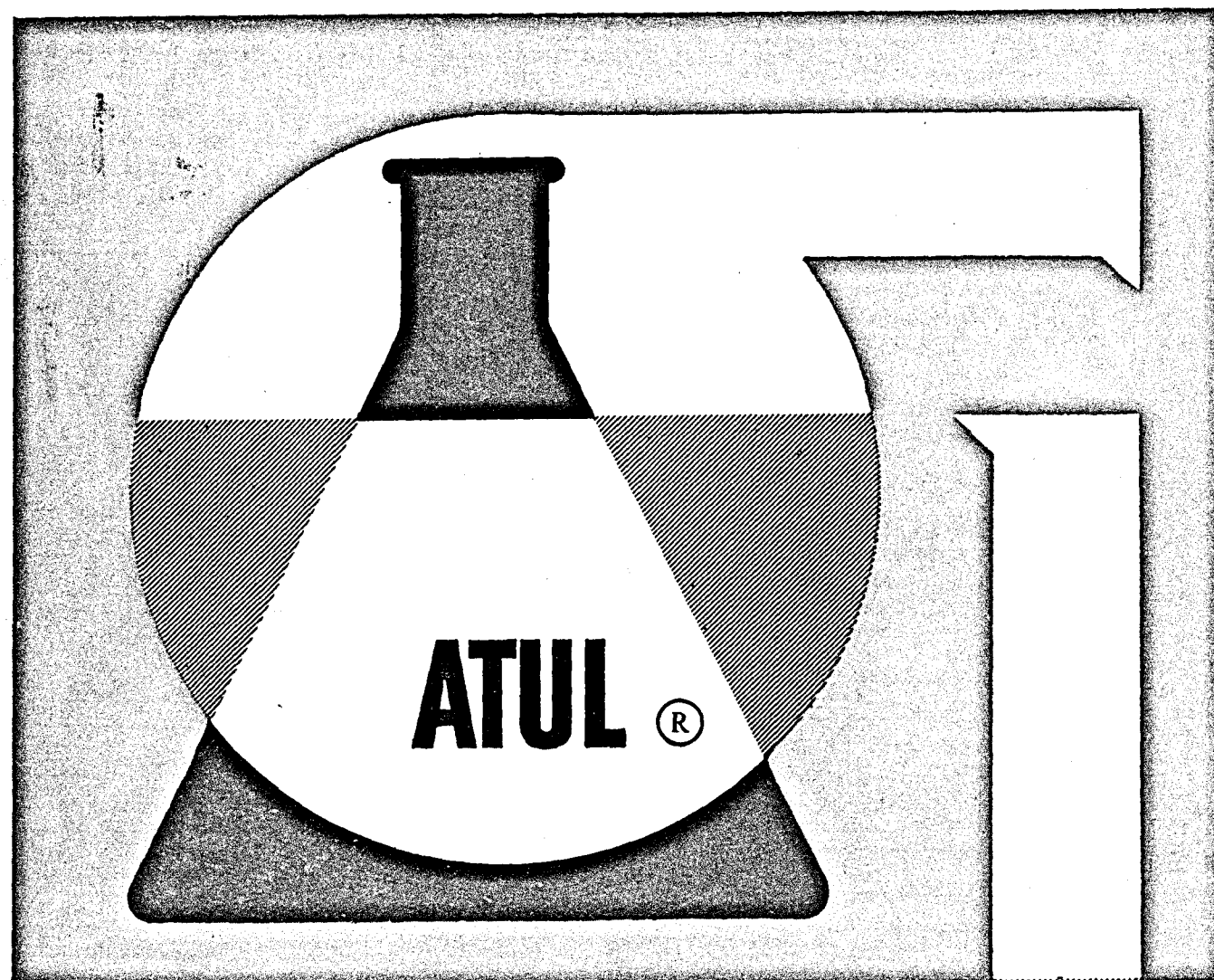
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Printed by Krishna Raj at States' People Press, Janmabhoomi Bhavan, Ghoga Street, Fort, Bombay-1, and published by him for Sameeksha Trust from Skylark, 281 Free Road, Bombay 1

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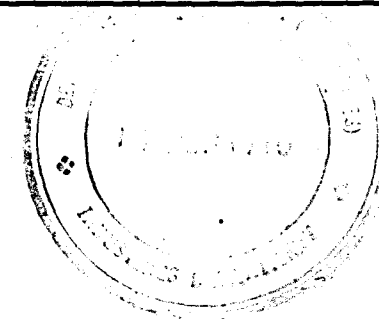
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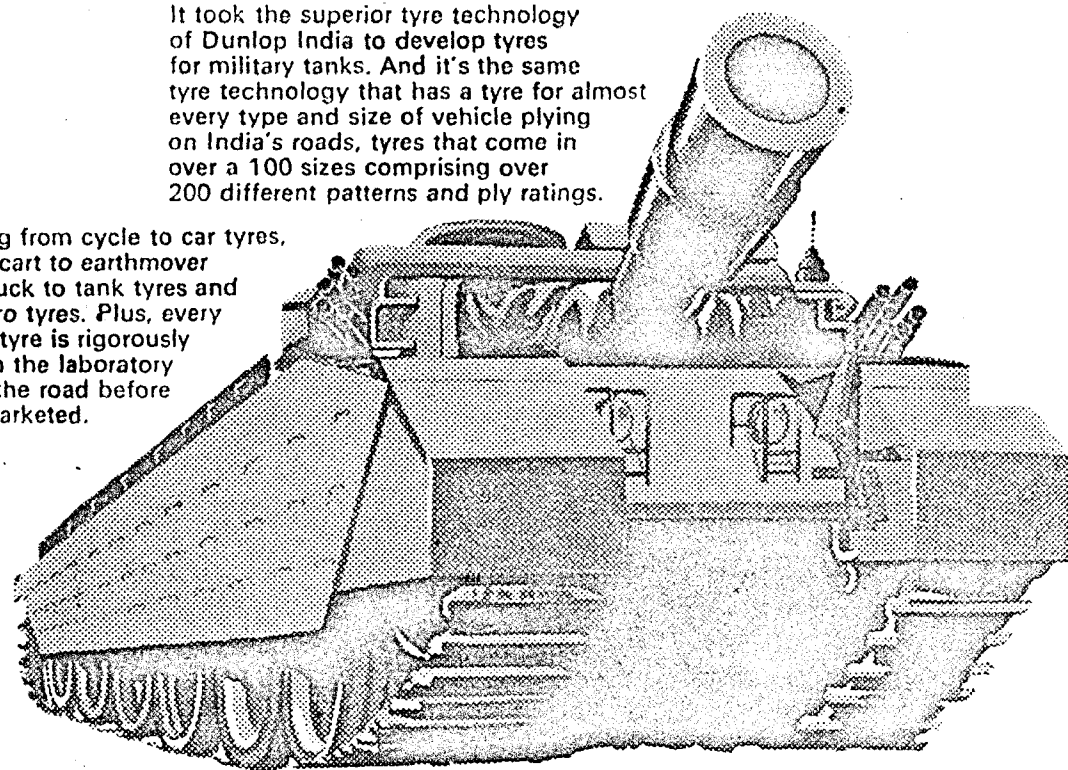
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ECONOMIC AND POLITICAL WEEKLY

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Separate Paths

INTERNATIONAL conferences can be useful venues for promoting both goodwill and active co-operation on issues where there is some mutuality of interest. They can also be mere reflecting pools for the narcissus complexes that all nation-states some time or other suffer from. At Lusaka there is a good deal of back-slapping and exchange of compliments going on and this will no doubt satisfy national vanities and raise the drooping prestige of many leaders. But behind all this superficial *bonhomie* are there any issues which bind the interests of these countries together? With 60 countries holding widely different views on international affairs and regulating themselves with a variety of internal political systems, extending from a new style of experimental communism in Cuba to the military rule of the fanatically anti-communist régime in Indonesia, the non-aligned nations look like a motley conglomeration at first sight.

Kaunda's opening speech at the Conference made the obvious, but pertinent point, that it was the more powerful powers which interfered in the internal political developments of less powerful countries and tried to play off and divide the weaker nations against one another. The feeling of resentment against the presumptuous and overweening behaviour of the richer (so-called "developed") and thereby, more powerful, segment of the world is a feature which is evident amongst most of the nations at the Conference and gives them a sense of unity despite their variegated internal situations. This is because all the countries at the Conference, with the exception of Austria and, possibly, Yugoslavia, have one thing in common — their economic poverty. This coupled with their growing disenchantment with what is mistakenly called "aid" has led to a general acknowledgement of the need for greater economic self-reliance amongst the non-aligned nations, an outcome which was hardly envisaged when the first non-aligned conference was held at Belgrade in 1961.

While economic self-reliance has been rightly stressed, the Conference has failed to recognise the close connection between economic and political policies. Conference declarations were drafted by separate economic and political committees. This sort of separation underlines the uncalculating state of mind of many of the leaders at the Conference in that they seem to think that economic and political issues can be dealt with separately. Even Zambia's President who pointed out the interrelationship between Western political backing to white-ruled Southern Africa and the West's financial investment there, at the same time made the error of referring to the political and ideological support expected by the powerful countries *in return* for economic, financial and technical assistance. He missed the essential point which is that the rich countries expect political support and at the same time profit from the conditions on which aid is given. There is a good case for saying that aid is a burden to the receiving countries and that with the added help of an international trading structure favourable to the richer nations, the poor are helping the rich — quite in contrast to the pious platitudes of the aid-givers.

The state or state-guaranteed foreign debt of aid-receiving countries was \$55,000 million in June 1969 and annual service payments had risen to about \$5,500 million. By 1977, optimistically assuming fresh assistance at a rate similar to that in 1965-67, the total interest on foreign aid payable in that year will climb to \$9,200 million. If the interest and profit on foreign private loans and investments are added, the sum total of annual service payments will surpass that of new assistance. Why then do the poorer countries accept aid on these adverse conditions? Part of the answer is, in order to repay past debts. But the more important reason is that many of the governments of the non-aligned nations apart from having historical links with former colonial countries, wish to retain the goodwill of the big powers so as to maintain, with external help, internal socio-political systems which are not flexible and responsive enough to satisfy the increasingly urgent economic needs of poverty-stricken populations.

This attitude is manifest in that the Provisional Revolutionary Government of South Vietnam, which has dared to openly defy a super power interfering in the internal political situation of a small and poor country, was denied full membership of the Conference and allowed in only as an observer. Non-relevant criteria like not being established *de jure* governments were also applied to other nationalist movements, like South Africa's African National Congress, the MPLA of Angola, FRELIMO of Mozambique, ZAPU and ZANU of Zimbabwe and the Palestine Liberation Organisation, by a number of governments which have come to power by such dubious means as military

putschs. Ironically, these movements are fighting against the very same political and economic dominance of the richer countries which the governments of the countries at the Conference are talking about.

It is, however, likely that some good has already come out of the Conference, as the realisation that there is a basic community of interests among the poorer nations of the world has been clearly articulated for the first time at an international conference with political origins quite distinct from the specialised UNCTAD conferences. The non-aligned ought to consider expanding their membership to include the entire "Group of 77" poor nations, all of which have an interest in countering the self-interested practices of the rich nations through united political pressures and greater economic self-reliance and co-operation among themselves.

World Bank: Expansion and Diversification

THE Annual Report of the World Bank for 1969-70 shows that McNamara's impact on the Bank's operations has not worn off. In his first address at the Bank's Annual Meeting in September 1968, McNamara had promised to double the Bank's operations in five years. In his second address, in September last year, he had referred to the need for the Bank to concern itself with social problems, like urbanisation, consequent upon industrial development. The operations of the Bank in 1969-70 show some movement towards fulfilment of these promises.

Aggregate approvals increased to \$2,186 million in 1969-70 from \$1,784 million in 1968-69; of this, \$1,580 million was on World Bank account and \$606 million on IDA account. The average size of World Bank loans has increased substantially, from about \$17 million in 1968-69 to \$24 million in 1969-70. On the other hand, the number of IDA credits too shows a sharp rise, from 38 to 56. Moreover, McNamara has now promised replenishment of IDA's resources at the rate of \$800 million per year for the next three years; this should make it possible for the IDA to plan its operations, which have in the past been hamstrung by lack of finances, more aggressively.

However, while commitments are expanding, it is evident that disbursements are not being made as rapidly. Disbursements on World Bank account

were \$772 million and show little improvement over the level reached in 1966-67. Disbursements on IDA account were \$143 million and were a little over half the level reached in 1965-66.

The geographical spread of the World Bank's expanding operations has not been even. While approvals in Latin America and the Caribbean increased by 50 per cent and in Africa by 30 per cent, those in Asia increased by only 10 per cent. It needs to be mentioned, though, that Asia still accounts for 40 per cent of total approvals. And India is again emerging as a large borrower from the World Bank group, particularly from IDA. The generous annual replenishment of IDA funds which McNamara has promised should be a source of comfort to our Government.

Purpose-wise, the Bank group's operations show some significant changes: approvals for public utilities increased by about 37 per cent, industry by 20 per cent and agriculture by 14 per cent, while those for education remained more or less constant. A first loan was approved for family planning and more loans are being given, by IDA, for pre-project surveys. As the scale of the Bank's operations expands, it will need to encourage project surveys even more actively to locate new projects to prevent the pipeline of projects from getting depleted. Funds are also now being allotted for urbanisation studies and a section in the Bank's Annual Report deals with problems of urbanisation.

A large proportion of World Bank financing is routed through national development banks. Of total Bank and IDA financing of \$367.5 million for industry, almost three-fifths (\$216 million) was through development banks, some of them Government-owned. This method of financing is obviously necessary to enable the Bank to reach a wide enough range of industries.

The Bank does face various problems. Particularly, its financial position deserves notice. While total disbursement in 1969-70 was \$772 million, the Bank also needed \$436 million for debt retirement. Repayments of loans by borrowers amounted to \$329 million, and the Bank had to make new and refunding issues of \$735 million. The Bank has been paying a high price for its money (the Annual Report refers to "a new record level of over 9 per cent in mid-May"). To meet the rising cost of its funds, the Bank recently raised the

rate of interest on its loans to 7½ per cent. The Annual Report incidentally also refers to interest rate policy in the borrowing countries in the context of their need to raise local resources. Low interest rates, in the Bank's opinion, "have rarely been effective for the purpose or progress they intended to achieve; indeed their effects have generally tended to produce precisely the situation the authorities had intended to avoid, namely, to create a scarcity of resources".

IMF in a Less Troubled World

THE year 1968-69 was a year of troubled currencies marked by imbalance in international trade, shortage of liquidity and persistent currency speculation. By comparison, 1969-70 must appear almost a period of calm. With the revaluation of the D-Mark imbalances in international trade were less acute than in 1968-69; liquidity was augmented by the activation of SDRs and the smooth operation of the scheme; and there has been less speculative movement in currencies.

The year also recorded impressive progress in overall economic terms. National income increased by 5.5 per cent in 1969 in real terms — by 5 per cent in advanced countries and 6.5 per cent in developing countries. Growth in certain advanced countries, particularly US and West Germany, however, seems to be decelerating under inflationary pressures and attempts to counter them. The developing countries expanded their trade which was also in better balance. World trade increased by 14.5 per cent at current prices or 10 per cent in real terms. Here, again, early trends in 1970 indicate some slowing down.

International liquidity increased mainly as a result of creation of SDRs, there being little significant change in gold or dollar holdings. Of the total of \$3.4 billion SDRs created, \$549 million was used by 46 countries during the period January to June 1970. The reserves of less developed countries showed a marked improvement from \$15.21 billion to \$16.75 billion.

Yet problems remain. The most important is that of inflation from which all the advanced countries are suffering, though in varying degrees. The IMF's Annual Report for 1970 discusses in detail policies relating to economic ma-

agement. It recognises the inflexibility of fiscal measures and accepts that the inflation that the advanced countries are facing is essentially a wage-push one. It makes out a case for incomes policies and greater firmness in domestic economic policies.

At its last annual meeting IMF had undertaken to examine various aspects of reducing the strain on reserves, including flexible parities. The IMF Report is silent on the subject of flexible parities — not surprisingly, since it goes against the Fund's basic philosophy. It is, however, evident that despite less currency instability in the last one year, the problem cannot be wished away. The US, of all countries, is reported to be now veering towards seeking a solution in more flexible exchange rates. It may even advocate the idea at the Fund's coming annual meeting. One awaits IMF's response to these pressures.

Two Acres for Vinoba

A Correspondent writes:

TWO decades ago, coinciding with the launching of the First Five-Year Plan and following the pacification of Telengana, then in the grip of a limited but bloody revolution, the saintly Vinoba Bhave initiated the now almost forgotten Bhoodan campaign. The saint with the Gita followed the soldiers with the guns. Memories of the campaign were revived this week on the occasion of Vinoba's 75th birthday. A torrent of words has poured out in praise of the champion of Daridranarayana with a profusion comparable with that of the rains at the peak of the monsoon, but the words have failed to conceal the sad realisation that Bhoodan did not take off. It just did not become a movement.

Compassion was certainly the motive-spring of the Bhoodan campaign. But Vinoba had taken great pains throughout to emphasise that he was not pleading for a gift as suggested by the use of the word *dan*. "We say", said Vinoba, "we are all brothers. Give us an equal share. We conceive *dan*, that is, charity, as an equal distribution of one's riches". If someone offered only two acres out of his hundred or more, Vinoba declared, "we refuse to accept the offer". The Saint did not want a class war. He wanted social justice. The nation missed the message.

Vinoba was about sixty when he initiated Bhoodan — that was when the Gorwala Committee sloganised: "Co-operation has failed; co-operation must

succeed" — and now at seventy-five the spirit of his movement has been totally dissipated. Telengana inspired Bhoodan; it did not, however, inspire Government to take up a programme of land reforms that would seek more than two acres out of every hundred. Vinoba rejected charity by the superior to the inferior. The state rejected this approach of Vinoba: that is the record since Avadi and the Nagpur resolution on co-operative farming.

A saint steeped in belief in transmigration of the soul can hardly be bitter over the outcome of his still-born movement. Was it Nehru who said that Vinoba was the true heir of Gandhi? If so, Nehru certainly perceived more than his contemporaries. Gandhi's Dandi March has never been glorified by the state the way China has projected Mao's Long March. How could the state accept his heir?

In the evening of his life, Vinoba can see the sun set on the Gandhian milieu. Co-operation is damned and land reforms remain perfunctory. The cry for brotherhood of man is as empty of content as ever. The jotedars of Bengal flooded their lands into lakes to escape the provisions of land ceiling legislation. During the two decades of Bhoodan property was redistributed throughout the land — among close relatives to escape the axe of land ceiling. The green revolution has commercialised agriculture, but contributed little by way of social justice to the landless, impoverished agricultural labourer. Bhoodan began with Telengana and ended with Naxalbari. The harsh sound of bullets has drowned the frail voice of the Saint.

Doubtful 'Derecognition'

A Legal Correspondent writes:

THE rulers of the former Indian States who chose to accede to India after the lapse of the British paramountcy signed the instruments of accession in the interregnum between Independence and the establishment of the Republic. Under the instruments of accession they claimed privy purses as also assurances regarding personal rights, privileges and dignities. The Constitution made the privy purses a charge on the Consolidated Fund of India and also provided that the sums paid to the rulers would be exempt from income tax. The Constitution further provided that in exercise of the power of Parliament or any State legislature to make laws or in exercise of the executive power of the

Union or any State, due regard shall be had to the guarantees and assurances given to the former rulers under the covenants or agreements entered into with them. Article 363 excluded any disputes arising out of such covenants from the jurisdiction of the Courts.

These special privileges and immunities were clearly inconsistent with the egalitarian objectives of the Constitution. The immunities granted to the princes, specially that regarding liability to judicial process in either criminal or civil courts only after permission of the Central Government, were in a sense even more obnoxious than the privy purses. Once it decided to abolish the privileges and privy purses, Government had a clear choice before it whether to do so by executive action or by amending the Constitution. It is doubtful that the princes would have been able to assert their rights through the courts of law had Government simply declined to continue to pay their privy purses or to recognise their privileges. This would, it is true, have involved a breach of the agreements made with the princes, but in the light of Article 363 the action could not have been subject to judicial scrutiny. But Government evidently decided, to avoid all doubt on the subject and to get the sanction of Parliament, to bring forward the Constitution Amendment Bill which had to be passed by a special majority, namely, more than half the total membership of each House and more than two-thirds of the members present.

In the light of the political situation and the relative strength of the various parties in the two houses of Parliament, Government was taking a considerable risk. That it could muster a formidable majority for the Bill in the Lok Sabha left no doubt about the overwhelming popular support for the abolition of the privy purses and princely privileges. But the fact remains that the Constitution Amendment Bill failed, though by a fraction of a vote, to secure in the Rajya Sabha the required two-thirds majority of members present. It makes little difference that it failed by a fraction of a vote or that many of those who voted against it were also in favour of abolishing the princes' privileges.

In the light of the support that the Bill got in both Houses, Government could have expected to be able to have it passed at the next attempt. But what Government has now done is to resort to the interpretative clause of the Constitution which defines a ruler as a person or his successor who is recognised

as such by the President of India. It is unquestionable that the definition of a ruler connotes recognition by the President but it is difficult to appreciate how the definition clause permits derecognition of all the rulers at one fell stroke. The power to derecognise seems to envisage that the President has the power to extend recognition to any other person instead of the person who entered into the original covenant or his successor. This power was exercised in the case of the Gaekwad of Baroda where by a Presidential order, instead of Pratap Singh who had signed the instrument of accession, his eldest son was recognised as the Gaekwad. Pratap Singh was charged, among other things, with taking part in activities intended to upset the Constitutional settlement between the Government of India and the ruler of the native State.

But quite apart from whether the Union Government has the power to derecognise all the rulers at one stroke, one important distinction between legislative and executive action has to be noted. A legislature can act within its powers and its motives in passing an enactment would not be relevant. But an executive action, even if it is within the executive's powers, can be assailed on the ground of malafides or improper motivation. By initially opting for the Constitution Amendment Bill, Government in effect itself cast doubt on the validity of executive action to abolish privy purses and the privileges of princes. And now by the precipitate manner in which it has derecognised all the princes it has raised questions about the malafides of the action. It would be unfortunate indeed if a step which has been shown to enjoy overwhelming popular support is assailed because of the inept manner in which Government has sought to enforce it.

DMK under Pressure

NO one seriously believes that the three ministers who have just 'resigned' from the Tamil Nadu Government have done so to devote themselves to party work. This facade was not taken seriously even when the 'Kamaraj plan' was used for the first time by Nehru. But whereas Nehru had used the device to get rid of unwanted ministers, it does not seem that in Tamil Nadu the initiative was at all that of Chief Minister Karunanidhi. One of the dispossessed ministers, K A Mathialagan, it is true, has been for long a political opponent of the Chief Minister and the rivalry between the two had come

sharply into the open after Annadurai's death. Against this background, the conspicuously conciliatory references to the Chief Minister in Mathialagan's public statement after his forced resignation must cause some surprise. The explanation evidently is that Mathialagan is aware that the hand that has struck him down is not really that of the Chief Minister.

The fact seems to be that Karunanidhi is just now under considerable pressure within the DMK party. The general political trend in the State has not been favourable to the DMK. The broad anti-Congress front which Annadurai had forged at the time of the last general election has virtually broken up. The CP(M) has publicly parted company with the DMK; at its meeting at Pudukottai in June, the State Committee of the party formally decided that it would not support the DMK in future by-elections to the State Assembly. The Swatantra party has not yet openly broken with the DMK, but links between the two parties have been rendered extremely tenuous by the Swatantra party's dissatisfaction with the DMK's attitude at successive by-elections and by the DMK's policy of extending firm support to the Prime Minister at the national level. It appeared at one time that the CPI was preparing to take advantage of the situation by trying to ingratiate itself with the DMK, but the State Government's resolute suppression of the party's land movement has made it difficult for CPI leaders to justify, immediately at any rate, any attempts to arrive at an understanding with the DMK.

How significant was the contribution of DMK's allies to its triumph in the 1967 election is debatable; but the collapse of the alliance does lay the party and the Government open to attack from many sides, and from the Left especially. What is more, this development has taken place at a time when Congress (O) under Kamaraj has been making determined efforts to refurbish its party organisation as well as bring together the scattered but widespread antipathies aroused by the DMK during its three years in office. The results were to an extent seen in the recent panchayat elections. While, as Karunanidhi has claimed, the DMK did capture nearly 50 per cent of the panchayat unions, its performance was hardly that of a party holding unquestioned sway over the State as appeared to be the case after the last general election. The performance of Congress (O) in the

panchayat elections, on the other hand, left no doubt that in another two years the party would be a serious contender for power. Apart from its indifferent performance, what the panchayat elections brought out was the poor discipline within the DMK and the lack of control of the party's leadership over its local cadres so that in many areas DMK candidates contested among themselves and there was even internecine physical violence.

This aspect of the party's performance in the panchayat elections was the main subject of discussion at the recent meeting of the DMK executive; another was the growing accusations of corruption against DMK functionaries, particularly ministers. It was at this meeting that the majority opinion in the executive not only told the Chief Minister to get rid of certain of his colleagues but also picked out these ministers for him. It is no coincidence that the three ministers who came in for the most criticism at the meeting are also the ones whose 'resignations' Karunanidhi 'accepted' on Wednesday.

As Chief Minister, Karunanidhi faces a twofold problem. He has to shore up the sagging fortunes of his party and, at the same time, reassert his position within the party. His Government's cordial relations with the Centre, while helping to secure for the State an impressive share of the Centre's pecuniary dispensations, is at the same time a severe handicap for a party whose mass popularity was based primarily on its image as a party fighting for the rights of the State and the people of the State. In the circumstances, the Chief Minister's efforts to recapture some of the lost élan by raising the demand for a separate flag for the State or by organising the so-called "autonomy-for-the-States convention" are unlikely to cut much ice. At the same time, the forcing out of the three ministers from the Cabinet may well make the Chief Minister's task of strengthening his grip over the party more difficult. Mathialagan and Muthuswami are prominent leaders of the DMK; the former, particularly, is a founder-member as well as a member of the party's Parliamentary Board. Given the support that he has in the party's general council, it may be taken for granted that Mathialagan will not give in without a fight to the attempt to ease him out of power. Though he did not initiate the process, Karunanidhi will have to bear the brunt of the in-fighting that may be expected to follow.

Size versus Sophistication

IT has been widely noted that the recent policy statement by Leonid Brezhnev, First Secretary of the Soviet Communist Party, delivered at Alma Alta, capital of the Kazakh Republic, omitted the customary reference to the West German Government as 'revanchist' and 'militaristic'. This is understandable. For, it is evident that the Soviet Union is most anxious to take advantage of the recently-concluded Moscow-Bonn Treaty to get the West German Government and industry to make a major contribution to revitalising important sectors of the Soviet economy.

The type of projects for which the Soviet Union is seeking West German assistance are significant because they bring out the technological gaps in Soviet industry. What Moscow is most keen to get from West Germany are large industrial units and manufacturing plants which incorporate the latest technical knowhow. The Soviet Union's relative backwardness in chemical industries is well recognised. In this field, the Soviet Union has already sought and got considerable assistance from West Germany in the past. Salzgitter, a government-owned German company, has put up four large chemical plants in the Soviet Union in the last ten years, while Friedrich Uhde, part of the Hoechst group, supplied complete fertiliser plants in 1967 and 1969. BASF will soon start work on a synthetic fibres plant while negotiations are on with Linde for a number of petrochemical units.

What recent developments have brought out, however, is that even in engineering industries the Soviet Union stands in need of West German technology. This is significant since these industries had, from the very beginning, received the highest priority at the hands of Soviet planners. The biggest single project being negotiated between the two countries is perhaps a truck plant which the Soviet Government has invited Daimler Benz to put up. The plant will have a capacity of 1,50,000 heavy duty (10- to 20-tonne) trucks and is estimated to cost about DM 4 billion (Rs 800 crores). The Soviet Union had earlier negotiated unsuccessfully with Ford of USA for this project.

It is also of some significance that a number of the plants put up by West German companies in the Soviet Union have been in the nature of turn-key

projects. The Soviet authorities have been willing to entrust the entire responsibility for planning and erection of the plants to the collaborators. In the case of the truck plant, Daimler Benz has been offered the entire technical responsibility, including that for issue of tenders for equipment and planning of production. In addition, Daimler will supply heavy equipment, licences and knowhow.

While German industrialists are naturally enthusiastic about these vast opportunities, a major problem is that of payments. Soviet Union had an adverse trade balance of DM 276 million with West Germany last year. The difficulty is that while the Soviet Union imports large quantities of West German machinery, equipment and knowhow — and is in need of more — it has to rely mainly on exports of raw materials to pay for these. Soviet efforts to export capital goods and consumer items have met with little success.

To finance the large projects which it expects West Germany to supply, the alternatives before the Soviet Union are: (a) securing credits from the West German Government and/or German banks; (b) stepping up its exports of raw materials; (c) paying out of its free foreign exchange and gold reserves. Neither the West German Government nor private German banks have rushed in with credits so far, though there are unconfirmed reports that the Soviet Union, for its part, has sought a DM 30 billion (Rs 6,000 crores) credit over the next ten years. Similarly, the possibilities of expanding export of raw materials to West Germany are limited, though they do exist. A prototype in this respect may be the pipeline deal concluded between the two countries in February last, under which two West German firms will supply DM 1 billion worth of steel pipes to be paid for by the Soviet Union through export of natural gas. During his recent talks with Chancellor Brandt, Prime Minister Kosygin is reported to have invited West Germany to participate in a long-term plan for exploitation of the Soviet Union's large untapped resources of non-ferrous metals, coal, natural gas and timber. The Soviet Union has similarly sought to involve Japan, another potentially important source of supply of industrial knowhow and equipment, in the exploitation

of natural resources in the Siberia region.

All in all, engineering economic ties between the Soviet Union and West Germany present an interesting study in contrasts of size (the Soviet Union, after all, boasts of the world's second largest GNP) and sophistication.

Long Way to Go

THE Fertiliser Corporation of India was formed on January 1, 1961, integrating the existing public sector fertiliser units and putting them under unified control in order to co-ordinate policy and ensure more efficient functioning of the public sector units. Now, nearly 10 years later, of its five operating units only Nangal and Gorakhpur are profitable. Sindri, the oldest unit has a 'marginal loss' of Rs 26 lakhs for 1969-70. Trombay and Namrup have, between them, shown a loss of Rs 4.40 crores and both units continue to 'cause concern' to FCI. Thus, on a higher turnover during 1969-70 of Rs 65.80 crores (Rs 48.79 crores in 1968-69) net profit, after depreciation and interest, was Rs 2.52 crores, and this may be put against the corporation's paid-up capital (including equity participation by Government) of Rs 96.55 crores. Internal resources generated during the year were Rs 11.76 crores, against Rs 12.96 crores in the previous year. FCI, like other fertiliser producers, must benefit from the price decontrol of the past three years. Fertiliser is in short supply, so, except under built-in technical difficulties of plant and operations, the units may be expected to operate to near full capacity. Yet only Nangal succeeded on this score, even slightly exceeding its rated capacity. Gorakhpur worked at 91 per cent of capacity and Sindri at 88 per cent. But Trombay and Namrup operated at the notoriously low level of 50 per cent.

Meanwhile, as the major public sector corporation in fertiliser production (FCI accounts for 522,000 tonnes against FACT's 50,000 tonnes) and as the single largest fertiliser producer in the country (the private sector accounts for 480,000 tonnes), FCI also continues to be responsible for major expansion programmes. Eight projects are at various stages of preparation to be taken up for implementation. Six of these which are firm will give a capacity of nearly one million tonnes. Durgapur in West Bengal, Barauni and Sindri rationalisation in Bihar, and Namrup in

Assam, are under construction. Durgapur is to be complete by 1971 and the others a year later in 1972.

But the chairman of FCI — in what sounds like caution over expectations of adhering to this time schedule — states that, problems of indigenous supply of equipment are proving very difficult. As a public sector unit FCI would be under special public scrutiny regarding use of indigenous plant and parts wherever possible. But the chairman's caution must stem from past experience also. Trombay, Gorakhpur, and Namrup went into production a couple of years after the initially scheduled date. Most of Trombay's troubles are said to be the consequence of an ill-executed technical collaboration.

Coal-based fertiliser — for which two schemes have been approved for Talcher and Ramagundam, and a third for Korba on which work has yet to begin — will need special consideration. The technology is not so well-established. And the West Germans, from whom credit had been expected, are chary of our capabilities. Technical collaboration for these plants may thus be a necessary corollary to our credit needs, and may yet be beneficial if terms are exacted which will incorporate efficient execution and functioning within a specific time span.

Trombay's expansion, based on ammonia imported from Kuwait and Iran is another approved scheme.

Aware that, with fertiliser decontrolled and the existing shortage continuing, disposal will begin to pose a serious problem — especially since so many of the units are concentrated in the north and expectations of fertiliser consumption are based not entirely on a ready market but on expected spread of the high-yielding varieties programme in agriculture —, FCI has begun to strengthen its distribution and marketing network in various States. It has also stressed use of existing outlets such as co-operatives. Further, in a promotional effort it has begun a series of demonstration programmes. This, indeed, is a field — and the importance of finance availability for purchase of fertiliser must not be underrated — that will need more and more attention, and action in anticipation, by fertiliser producers, particularly if by 1976-77 the planned self-sufficiency in fertiliser is in fact attained.

Export Insurance Comes of Age

THE Twelfth Annual Report of the Export Credit Guarantee Corporation for the year ended December 31, 1969 may be said to mark the coming of age of export insurance in India. This is

evidenced by expansion in volume and range of business covered, an attempt at rate-cutting to stimulate business (and pass on the benefits to clients) and even some pats on the back from foreigners.

The total number of policies and guarantees issued went up from 2,234 for Rs 83 crores in 1968 to 2,976 for Rs 133 crores in 1969. The main items of business were policies (1,537 for Rs 64 crores in 1969) and packing credit guarantees (1,215 for Rs 47 crores), though 1969 also showed a sharp increase in export production finance guarantees (from 34 for Rs 4.28 crores in 1968 to 64 for Rs 12.18 crores in 1969). One notices also the increase in the average size of cover, from Rs 3.8 lakhs in 1968 to Rs 4.3 lakhs in 1969.

Premium income, however, shows a somewhat less than proportionate rise, from Rs 47.19 lakhs in 1968 to Rs 70.47 lakhs. This is because of various benefits passed on to clients. Premium rates on exports on credit above 180 days were reduced by one-eighth; the system of two-way classification of rates has been given up, reducing by one-sixth premium rates on items like gem and jewellery, artware, household utensils, etc. The rate on whole-turnover guarantee is lower at 5 paise, against the normal 7.5 paise. Finally, the percentage payable on policies (earlier 80 on commercial and 85 on political risks) has been increased to 90 and that under packing credit guarantee increased from 66% to 75.

Such enterprise has its rewards. The UNCTAD-GATT International Trade Centre has praised ECGC's work — the coverage provided, the rates charged — as comparable internationally. Yet, ECGC has still a long way to go. The value of export business covered in 1969 was Rs 101 crores, or about 7.3 per cent of total exports. Excluding business which would not seek insurance, ECGC estimates that it covers about 20 per cent of insurable exports. This shows the leeway it has to make up.

One Swallow...

ONE Bhuvan Shome, even after it has won the President's award, will not redeem the Film Finance Corporation. The Corporation's operations over ten years confirm one's worst impressions about the film-making business in this country. While it financed Bhuvan Shome, the Corporation had also financed, from its inception till the end of March 1970, 87 other films; of these 5 never saw the light of day and a further 6 are without any prospect of being released; 22 others, on being released,

promptly folded up as flops. The result is that out of outstanding loans of Rs 86 lakhs, Rs 29 lakhs were considered doubtful. This was the position after Rs 13 lakhs had already been written off as irrecoverable.

Admittedly, much of the damage was done in the Corporation's earlier years. The recent improvement in its working, the Corporation's present chairman attributes to the new policy of sticking to low-budget, black-and-white films. True, avoiding all-or-nothing extravaganzas does help to spread the risk, but there are other problems. If the low-budget film cannot be a colossal flop, it is also unlikely to be much of a success commercially. Whatever their artistic merit or even their potential appeal to the film-going public, distributors and exhibitors will not touch them. Recognising this, the chairman talks bravely of entering the distribution trade and even building cinema halls.

However, the importance of having its own "infrastructure" in the form of a distribution and exhibition network has dawned on the Corporation at a time when it is in danger, for want of funds, of having to close down even its normal financing business. With funds on hand barely enough to meet amortisation commitments to Government, disbursements this year would have to come almost entirely from the return flow of funds from borrowers. Even if this is sustained at the high level achieved last year, not much will be left for fresh commitments. The Corporation's answer, predictably, is to ask Government to foot the bill by providing a 10 per cent 'subsidy' on loans provided by it.

But even if Government obliges, it is doubtful that the Corporation has the competence to spread out into distribution and exhibition business. Its maiden venture into distribution, a distribution office at Jullundur established in September 1968, has made a small, but tidy loss on the only two films it has handled so far. This half-baked foray does serious damage to the credibility of the Corporation's scheme for going into distribution and exhibition "in a phased manner".

Before Government takes a decision on the scheme or sinks any more money into the Corporation by accepting the "subsidy" idea, it would do well to consider what it is seeking to achieve through the Corporation. Of course, this is what it should have done, but didn't do, when the idea of the Corporation was first mooted. Faith in the need for films of artistic merit, and in their viability provided adequate distribution outlets are provided, is all right. But to redeem it an organisation with a harder head for business than the Film Finance Corporation is needed.

New Passions

Romesh Thapar

WHATEVER the constitutionalists have to say about the propriety of Indira Gandhi's executive moves against the princes following the failure of legislative action, the hard fact remains that for the moment the people will acclaim her as a decisive, committed leader. Even the reaction among the legalistic is casual. The more she whips a discredited, pseudo-democratic system, the more adulation is showered upon her. Even though the implications of recent executive actions may be graver than most imagine, Parliament and those who have been performing inside it have themselves to blame for what is happening.

The debate is likely to revolve around constitutional points and legal wrangles. No one has any sympathy for the princes. Indeed, even those who are supporting them in Parliament are inhibited, halting and embarrassed. The privy purse is an anachronism, and the receivers of privy purses have, by and large, no public relations. The Concordat is an absurdity. The salvation of the princes lay in patient negotiations over compensation and now even these have been severely devalued by executive action.

The ruling Congress Party, even as it moves to titillate the electorate, has yet to realise that popular moves are transitory; here now and gone tomorrow. A year after bank nationalisation, for example, it would be idle to pretend that this historic decision has political dividends to deliver in a future election. In fact, the contradictions which have crystallised in financial policies are now the crucial and complex issues. The privy purses are a piffling matter for most. About the only political impact will be that a large number of princes will jump on to the band-wagon of the Jan Sangh; they might be too lazy to do even that.

Actually, cynical political manipulation and faction-fighting by all and sundry have so damaged the constitutional, parliamentary process that it is becoming imperative to strengthen the leading executive organs of government to keep the system functioning. The concentration of power in the Prime Minister's hands, arranged during the last Cabinet reshuffle, and the repeated warnings that opposition for the sake of opposition would not be tol-

erated, together with the latest executive action on the derecognition of the princes in direct confrontation with constitutional provisions, are developments which point to the profound and disturbing changes taking place in the structure of power at the Centre.

Unfortunately, the *ad hocism* and opportunism of a large section in the ruling Congress Party have prevented the systematic formulation of an alternative system of legislative, executive and judicial action. Voices are heard questioning the relevance of the parliamentary system in today's India. Groups have begun to dwell on the inadequacies of the Constitution. Lobbies are at work to urge the need for a presidential system. This stir is a reflection of a spreading frustration and anger. If the charge is that Indira Gandhi seeks personal power, it should be remembered with a certain sadness that the general reaction is one of welcome!

There is little political health in all these nuances and shadings. A sprawling nation, tossed about by the tensions of community and caste, has lost its spirit. No dream of the future inspires it. All energy is drowned in the mundane business of day-to-day survival. And there is the endless squabble in Parliament, expensive, inchoate, taxing the fibre of the finest. Naturally, there is a headlong rush through the maze in search of someone who will play Gandhi or Nehru — or both combined. It is the passion that sparks every meaty conversation in the Capital — whatever

the constitutional pundits might say....

These new passions are increasingly likely to have an impact on political life. Already in Uttar Pradesh and Bihar, the old political processes are not yielding a viable-political solution for the heartland of the subcontinent. Nothing can damage the prospects of stability at the Centre more than the inability to control the heartland. The outlying areas of Bengal, Tamil Nadu, Kerala and Maharashtra are also proving troublesome and may produce situations which are explosive. Against this background, no coherent political organisation can crystallise. And the elections are just one year away — if we take it that the political parties will begin electioneering as soon as summer ends in 1971. A murky situation....

It was possible for the ruling Congress Party to take the clean path and move towards an early election despite its non-existent organisation — and it may yet do this if the Kerala results suggest a real swing — but, failing this, power will have to be used more massively and more decisively to change the system under which we live and to get it to perform. The country cannot be allowed to disintegrate because of fine constitutional points. The dangers inherent in the situation do not have to be detailed. They are obvious to thinking persons.

Maybe, recent events will bring mature thought to bear on our core problems rather than on the peripheral ones. Anyway we should not under-rate these problems any more. The political system of the last 25 years is failing. Either we salvage it boldly or replace it. At least this much is clear...

September 7

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)
Six months	Rs 32	
One year	Rs 60	Rs 75, \$ 10.00, £ 4 4s
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New Dimension to Old Cult

Nishtar

THE stock market continues to scale new peaks and there is no knowing where the new spirit of adventure will carry it. Caution has been thrown to the winds and the market is experiencing a fantastic boom. Rarely, if ever at all, have equity prices been known to rise the way they have been rising. Within a few weeks, many shares have risen by more than their full year's normal range. And there have been quite a few instances where prices have gone up by 30 to 50 per cent in a matter of days. Such steep rises are usually associated with "cornering" and "take-over" bids. But there have been no such deals recently. It is quite some time now since the market shifted its emphasis from yield consideration to growth prospects (capital appreciation). But more recently, the cult of equity has acquired an altogether new dimension — scarcity value. And there is no norm for measuring scarcity value.

The rise in prices has exceeded the most optimistic expectations. Even indiscriminate purchases have proved to be highly rewarding. In fact, the more calculating type of investors have got left out. While the situation currently obtaining in the market could well be described as one of optimism feeding on itself, the week's news was not without cheer. The market felt greatly relieved by the clarification issued by the LIC chairman that the Corporation would continue to support the capital market both by way of investment in equities and underwriting of new issues. Corporate news was highly pleasing and quite plentiful too.

The market also derived comfort from the announcement of the Plan outlay for 1970-71. The Annual Plan envisages a growth rate of 5 per cent in agriculture, 8 per cent in industry and 7 per cent in exports and anticipates a growth rate of 5.5 per cent in national income. Whether or not these targets will be achieved, it is difficult to say; past experience is none-too-encouraging. But there is little doubt that the proposed 26 per cent increase in the current year's outlay over that in 1969-70 will accelerate the pace of economic and industrial growth. Thanks to the very satisfactory monsoon for the fourth year in succession, agricultural production is likely to show all-round improvement in

the current year. And despite their dissatisfaction with many aspects of Government's economic policy, the chairmen of most companies have expressed optimism about the economic prospect.

That the stock market boom is not without a good economic basis may be readily conceded. But many are inclined to take the view that the market is moving far ahead of the economic indicators and that the current boom is very largely scarcity-induced.

Timely Imports Vital

THE unduly prolonged wet spell in the major groundnut producing areas has begun to cause anxiety. Since excessive moisture can damage the crop, each day counts. While some observers have already started revising their earlier estimates about the crop, others are keeping their fingers crossed. Inquiries with experienced and knowledgeable market men indicate that the damage so far is very small. The flood affected areas in Gujarat and elsewhere do not produce much groundnut. However, weather conditions in the next few days can have a significant impact on the crop. Nearly all the important groundnut growing areas are now in urgent need of bright sunshine. If the weather were to become clear immediately one could still look forward to a record crop of 62/64 lakh tonnes. One can only hope that there will soon be a break in the monsoon.

Groundnut oil prices had developed a slightly easier tendency following the shift in emphasis from current season-end shortage to improved prospective supply. But the spot quotation which had eased from Rs 5,625 to Rs 5,300 has again rallied to Rs 5,550 (per tonne) due to suspension of supplies from Gujarat owing to disruption of transport facilities as a result of heavy floods. The recovery in groundnut oil prices for October-November delivery has been rather small — around Rs 50 to Rs 75 (per tonne). New crop contracts in linseed and castor have eased further. Intermittent rallies caused by short covering have proved to be short-lived due to lack of follow-up support on the rise. Price movements in the immediate future are likely to be guided mainly

by the nature of weather reports. Unless weather takes a very unfavourable turn, the market will find it difficult to register a big recovery from the current levels.

But whatever be the size of the groundnut crop, Government will need to make adequate and timely arrangements for augmenting indigenous supply through imports of soyabean oil and mutton tallow. There have been reports of serious delay in importing mutton tallow allowed under US AID assistance. It would be a serious mistake if the entire quantity of mutton tallow is not purchased and shipped well in time. In order that imports may produce the maximum possible impact on the market, it is necessary to formulate a policy for the proper disposal of imported material.

The freight hike on oilcake and oilcake meal shipped from India to the UK and Continental ports, announced by the Karmahom Conference, which was to be effective from October 1, has been postponed to November 1. The Conference has indicated the possibility of the increase effective from the beginning of November being more than \$5 per tonne. While the benefit that shippers are likely to derive from the postponement of the freight hike by a month will depend on shipping space made available to exporters during September-October, the prospect of a bigger freight hike from November is very disturbing. Unless corrective action is taken by Government, the competitive position of Indian oilcakes is bound to be seriously affected. Even as it is exports need some promotional assistance.

Trade's Changed Attitude

FROM September 15, cotton imports will be canalised through the Cotton Corporation of India which has been entrusted with the implementation of Government's plans for takeover of the entire cotton trade in course of time. The earlier trade notice of August 10 which sought to keep imports of Sudan cotton outside the purview of the Corporation has been superseded. Business already put through up to September 4 has been exempted but contracts negotiated between September 5 and 14 are required to be reported within 24 hours to the Corporation to facilitate scrutiny and eventual issue of licences. The Corporation has the power to ap-

prove or reject these contracts after scrutiny.

The announcement of the revised procedure should remove doubts expressed in certain quarters about Government's intentions to takeover the import trade from this season. The claim made by the leaders of the cotton trade that the import of Sudan cotton had been left in private hands because of their agitation has also been exposed. But this hardly matters. What is really important is whether the Corporation has built up the necessary administrative set-up to handle import business efficiently. That the first meeting of the CCI board should have been concerned entirely with routine preliminary business of registration, official seal and coat of arms, delegation of powers to the managing director, opening of bank account, etc, suggests that the machinery for handling imports has still to be set up. Since imports involve valuable foreign exchange, undue haste in taking over import business should be avoided.

It is good that the trade has at long last realised the need for a friendly dialogue with the Corporation to discuss various issues relating to import business. An agitational approach would have only harmed its cause. The trade has urged the Corporation to maintain "an open house" so that all intending importers can participate in the business. But this suggestion is unlikely to find favour with the Corporation as canalisation will not serve any useful purpose if all importers are allowed to compete for the limited business, especially when exporters abroad are relatively few in number. How exactly the Corporation will dole out its business among importers is still not clear. One only hopes that it will not involve distribution of favours. The need for wholehearted co-operation between importers and the public sector agency can scarcely be overemphasised. It will take time before the Corporation can acquire the skill of experienced importers.

It is regrettable that New Delhi should have been unable to announce its cotton policy, for the 1970-71 season which commenced on September 1. But it does not really matter much. Import quotas for Sudan cotton (2 lakh bales) and Egyptian cotton (1.90 lakh bales) have already been released. Export of Deshi cotton is being permitted freely as before, though there has been no official announcement to that effect. Support prices have no practical significance and they have no bearing on

production. Therefore, what remains of the cotton policy is the part which relates to its marketing — stock limits and credit facilities. It is too early to formulate the marketing policy because a clear picture of the crop will not be available until about the end of October; many crucial weeks still lie ahead.

COMPANIES

Not So Good a Break

Hansavivek

INDIA STEAMSHIP reports poor results for the year to March last, with a drop in total freight earnings from Rs 13.29 crores to Rs 12.63 crores and in gross profit from Rs 2.41 crores to Rs 1.79 crores, despite the fact that the number of round voyages completed was higher — at 35.5 in overseas services and 8 in coastal service against 33.5 and 2, respectively, in the previous year. Net profit fell, from Rs 131 lakhs to Rs 82 lakhs, but covered the 10 per cent equity distribution threefold. Net return on total funds employed in business was 5.3 per cent. Number of voyages on the better paying trade routes, like UK/Continent and the Indo-Polish services, had to be reduced by five, while more vessels had to be berthed for carrying Burma rice, steel to West Asian gulf ports and cargoes to and from the UAR and Adriatic ports, in all of which profit-margin was 'much less'. Traffic in some of these trades was mainly in one direction, involving ballasting of the other leg. Carryings in all the overseas trades came down to about 6,20,000 freight tonnes from 6,63,000 freight tonnes during the previous year. Idle days, due to berthing delays, labour troubles, fumigation, etc, increased to 1,097.5 against 850.5 in 1968-69. Also, more chartered vessels had to be employed at a higher charter rate to fulfil obligations on the various trade routes, and an additional amount of over Rs 13 lakhs had to be spent on account of agreements entered into with floating and office staff unions.

During the year, the company added one second-hand vessel to its fleet by obtaining a foreign exchange loan of Rs 2.23 crores from ICICI. ICICI has also given it a loan of DM 3 million for the first instalment payment to a West German shipyard which is building 2 ships for India Steamship. In accordance with the credit agreement between India and West Germany, until the ships are delivered, India Steamship will obtain the requisite foreign exchange for payment of instalments to

the shipyard. The balance price would be paid under deferred payment agreement. As at the year-end, the company had received loans aggregating Rs 7.58 crores for construction and purchase of ships. A Ramaswami Mudaliar, Chairman, says the question of acquiring further vessels is under active consideration by the directors.

HINDUSTAN FERODO's gross profit was only marginally up from Rs 1.53 crores to Rs 1.55 crores during the year ended March 1970, although its turnover increased by 10 per cent to Rs 5.81 crores. Net profit was Rs 68 lakhs (Rs 65 lakhs) to cover the 22.5 per cent distribution 1.2 times and to give a return of 14.7 per cent on the total capital employed in business. Demand for the company's products continued to rise, and the textile, jointing and asbestos millboard divisions reached installed capacity by the end of 1969. Production of friction materials also increased after some difficulties in the first quarter. Full capacity working is expected to be achieved in the current year. H D S Hardie, chairman, foresees good prospects for the current year with higher sales and profits.

POYSIA INDUSTRIAL's chairman, Madanmohan R Ruia, complains that tinplate, the main raw material for can-making, is difficult to get because Hindustan Steel has not been able to keep its schedule over a period of several months; there is a serious backlog of orders pending with it as well as with Tinplate Company of India. The position has been so unsatisfactory that it has become 'unsafe' to place continued reliance upon their promises of supplies during the course of a quarter, a half-year, or a whole year. In view of the manufacturers' 'proved inability' to effect satisfactory supplies, Government has recently allowed import of a large quantity of tinplate. Ruia has once again stressed his oft-repeated suggestion that manufacture of cost-reducing tinplate, e.g. 2 CR and

TFS, be undertaken in the country and adds that Rourkela can easily be equipped for such production. He also complains about the 'continuous' rise in the cost of tinsplate which, according to him, constitutes 60-80 per cent of total cost of tin container. 'We have indeed gone a long way from the Government's subsidy on OTS tinsplate four or five years ago to triple taxation on tinsplate, tin containers and the canned products'. Poysha has received a 'letter of intent' in respect of the broad terms of the proposed technical collaboration with American Can. The company's diversification into other packaging materials and the manufacture of beer cans, aerosols, etc, will be taken up when the collaboration is finalised. Meanwhile, construction work has proceeded in all the three units of the company. Some important balancing equipment has been received at Thana and Ghaziabad. Since April, the Ghaziabad factory has begun to cater to the rising demand for large-diameter cans in northern India. The new Cochin factory is expected to be ready soon. The large-scale indirect exports in the shape of food and other goods packed in its containers apart, the company is making direct exports of printed tinsplate and manufactured containers to West Asia. During seven months ended March 1970, exports amounted to Rs seven lakhs and in the subsequent four months they increased further to over Rs 8 lakhs while orders in hand exceeded Rs 37 lakhs. During the year to March 1970, sales were up from Rs 4.01 crores to Rs 5.06 crores, and gross profit increased from Rs 35 lakhs to Rs 48 lakhs. Net profit was Rs 37 lakhs (Rs 25 lakhs) which covered the maintained 10 per cent equity distribution, part of which is expected to be exempt from tax, over threefold. Return on total capital employed in business came to 53 per cent.

KIRLOSKAR OIL's expectations of a 20 per cent rise in sales, as in the previous year, were belied during the year to March 1970 owing to a sudden fall in offtake of small HP engines throughout the country. The resultant piling up of stocks entailed increased expenses, which in turn slashed margins. Net sales were up from Rs 22.19 crores to Rs 23.40 crores, but gross profit was down from Rs 4.40 crores to Rs 3.07 crores. With the reduced tax liability, net profit was Rs 1.54 crores (Rs 1.72 crores). Equity dividend reduced by six points to 10 per cent, payable on the capital doubled by the issue of

free shares, was still covered 3.7 times. Net return on the total capital employed in business, however, worked out at less than 7.2 per cent. From last December, the company curtailed production of small HP engines and discontinued services of temporary workmen. Efforts were intensified to increase sales of these engines by exploring new markets and applications. Demand for RA type of engines was encouraging and their production is being increased. Demand for engines in export markets has also been steady and the company has been able to better its performance by

about five per cent over that of 1968-69. Even though demand for bearings for the stationary engines has gone down substantially due to the recession, orders for the thin-walled bearings have been satisfactory. The directors consider the present dip in business of 5 HP engines as a "passing phase" and expect the situation to improve by the latter part of this year. The subsidiary, Shivaji Works, has taken in hand expansion of its foundry. The West German subsidiary, F H Schule, fared well during 1969 with increased sales and profits.

FROM OUR CORRESPONDENTS

JAMMU AND KASHMIR

State People's Convention : An Assessment

Balraj Puri

THE Jammu and Kashmir State People's Convention, or its steering committee, has not been able in the course of almost two years of existence to propose a unanimous and clear-cut solution to the problem of the political future of the State; yet it would not do to dismiss the Convention as a complete failure. The uninhibited debate sparked by it on sensitive issues touching on the territorial integrity of the country was a more convincing demonstration of the vitality of Indian democracy than many other things that have been done in this State in the name of democracy. When demonstration of anger on the streets was replaced, at least partially, by dialogue inside a conference hall, logic to an extent replaced emotion. The impact of the Convention on Kashmir politics is in no small measure responsible for the current unusually relaxed political atmosphere in the State.

HANDICAPS

The Convention started with some obvious handicaps. Notwithstanding the claims of its sponsors, its attempt to appear to be open-minded was unsuccessful. For, its leading members had expressed their dissatisfaction with the *status quo* in no uncertain terms. Those who favour the *status quo* as the ideal status for Kashmir did not, understandably, respond to the invitation to attend the Convention. The Convention was boycotted by parties like Congress, Jan Sangh and PSP. Bakshi Ghulam

Mohammed, who had sent a written paper to the first Convention but had not personally participated in its deliberations, withdrew the delegation of his party, the National Conference, from the second session in June.

The composition of the Convention was thus heavily weighted in favour of those who are dissatisfied with the present status of Kashmir. The secessionist viewpoint was represented in strength. There was also a sprinkling of people who supported Kashmir's links with the Indian Union. But these individuals represented the most liberal wing of Indian nationalists in the State who are very flexible about the nature of the links between Kashmir and India. They were opposed to the 'official' line of the Convention as also to the extreme nationalist line. In a way this paved the way for the smooth functioning of the Convention. The liberal Indian nationalists presented a better image of India and were, temperamentally and intellectually, better equipped for a dialogue with the others represented at the Convention.

In regional terms the representation at the Convention was even more lopsided. Ladakh was completely unrepresented. From Jammu region, apart from some Plebiscite Front workers of Doda District, the Jammu Autonomy Forum was the only organised group which, with its four members, attended the Convention. The 12-member Steering Committee of the Conven-

tion had only one member from Jammu. However, this too did not prove a serious handicap. The absence of communal and regional chauvinists from Jammu made the Convention more responsive to the aspirations of the region. Its very first resolution affirmed that any decision about the political future of the State should keep in view the interests of all its regions.

In fact, the most outstanding achievement of the Convention is in the touchy area of interregional relations. It should be a matter of no mean satisfaction for the people of Jammu and Ladakh that the most influential section of Kashmiri leadership conceded their territorial, political and administrative identity. The future internal constitution adopted by the Convention envisages maximum regional autonomy, subject to maintaining the unity of the State. The five-tier — State, regional, district, block and village — administrative set-up adopted by the Convention ensures devolution of political power to the lowest level so that the entire population of the State will have a sense of participation and belonging.

The composition of the Convention adds significance to its decisions. A gathering predominantly of the section of Kashmiri Muslims which is in apparent clash with the Government of India and also with the dominant Indian thinking on the status of the State, categorically reaffirmed its faith in the values of secularism and democracy. It may be asked what all this amounts to in terms of the Convention's position on the issue of accession. Sheikh Abdullah had rightly chided, in one of his press conferences in Delhi, this obsession with the subject of accession. Political developments such as those that have been generated by the Convention would have been taken serious note of had they taken place in any other State. Why is their importance less and why are they being ignored simply because the locale is Kashmir?

RATIONAL COURSE

In essence, the Convention has proposed — through the guidelines and the internal constitutional structure of the State adopted by it — an eminently rational course to strengthen interregional and inter-communal harmony within the State as also to democratise the State's political set-up. Of course, the underlying belief is that all this would pave the way for a solution to what the Convention calls 'the Kashmir problem'. But the effort at what

Sheikh Abdullah called "setting our own house in order" is itself of profound significance. For if there is disorder, communal or regional, in Kashmir, its reverberations would extend far beyond the borders of the State.

However, the crucial question as to where all these proposals and guidelines lead the Convention on the issue of accession need not be brushed aside. The Convention may or may not be able to evolve a very precise formula, but it has already summed up its aspirations and requirements. While releasing the five-tier internal constitutional set-up to the Press, Sheikh Abdullah suggested that in taking a decision on the political future of the State, it had to be seen in which country this set-up would fit better. The other guidelines adopted by the Convention throw a similar challenge to Delhi and Rawalpindi. In sum, the Convention committed itself to joining the country which upholds the values of the national freedom movement like secularism, democracy and non-violence and respect for distinct regional and cultural identities like Kashmiri, Dogra and Ladakhi.

PERTINENT QUESTION

Whether we treat the Kashmir issue as closed or open, a pertinent question is: should not the aspirations of the

people as articulated by the Convention be satisfied? Indeed, if the Government of India had not stood so resolutely in the way of their satisfaction, there might not have been the so-called Kashmir problem. The essence of what the Convention is demanding is being practised or attempted to be practised in the rest of the country. Already a three-tier system of democratic decentralisation — at district, block and village levels — has been introduced in most of the States. Along with the State level, a four-tier administrative set-up is prevalent in most of the States, while in Assam and Andhra there is a five-tier set-up.

Why has the State of Jammu and Kashmir been singled out for exclusion from this experiment in popular participation in the affairs of the state? And why has a centralised, regimented constitution been imposed on it? Again, while institutional arrangements, in the form of linguistic States or regional autonomy, have been devised to protect most of the distinct cultural identities in the rest of the country, why are they expected to merge themselves into the centralised and regimented personality of the State in Jammu and Kashmir? After all Kashmiris, Gujars, Dogras and Ladakhis are no less distinct communities than, say, Tamils, Bengalis and Maharashtrians.

WANTED

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Administratively and practically, the Jammu and Kashmir Government takes better cognisance of communal entities than it does of cultural and regional entities which are essentially secular. Recruitment to Government jobs and admissions to educational and technical institutions have been strictly on a communal basis. Figures of communal representation in services are periodically published officially.

COMMUNALISM AND SECULARISM

Growth of more than one secular party in the State has never been a part of Government of India's official Kashmir Policy. In fact, the entire might of the state has been used to see that no secular opposition party strikes roots in the State. Every regime has sought to retain the sole agency of secularism and loyalty to the country and has been tempted to meet the challenge of secular alternatives to it by confronting them with artificially revived communal forces. Is it surprising that parties like RSS and Jamaat-e-Islami enjoy special immunities in the State in terms of representation in Government jobs and other activities? Jammu provided an initial base to Hindu communalism to launch itself on the national level. And before long Muslim communalism might start getting its main sustenance from Kashmir or events in Kashmir. While Kashmir's role in strengthening Indian secularism is thus tending to be less useful, the series of Ahmedabads and Bhiwandis are no shining instances to inspire confidence among its predominantly Muslim population in the secular professions of India.

In view of the above as also of some other factors, the dominant mood at the Convention as well as the mood of its dominant personality, Sheikh Abdullah, was one of disillusionment. In terms of the guidelines, Abdullah had no difficulty in ruling out any form of association of the State with Pakistan; he also ruled out a plebiscite "if Hindus and Muslims were to put their ballots in separate boxes". But he made no secret of his being disillusioned with India.

The question of the constitutional propriety of the chairman airing his personal views in the Convention is not so important. What matters is that Sheikh Abdullah's views are important, whether or not they are formally owned by the Convention. Besides, Abdullah had not used the occasion to make a well considered statement; he was provoked by two papers — supporting

the cases of India and Pakistan, respectively — read at the Convention. It is true that some of his unguarded comments, made in the heat of the moment, did adversely affect his delicate role and consequently that of the Convention. His aspersions on Nehru, whom he normally holds in high esteem, for instance, were not only against his better and normal judgment but they also seriously jeopardised his links with a section of progressive opinion in India, the co-operation of which is vital if Abdullah aspires to play any effective role. Likewise, by regretting some of his own past decisions, Abdullah undermined the edifice of his present stand demanding compliance by the Government of India with its so-called commitments. The momentum of the moral offensive that the Convention had patiently built up over two years was at least partly lost in a rash moment.

LIMITED OPTIONS

Even if Kashmiri leaders are able, through some miracle, to get the entire history of the past 23 years undone, the options before them are limited. They cannot construct a new ideal and perfect world around them but have to choose the least imperfect external relationship. The difficulties that Sheikh Abdullah himself had enumerated when he was in power in making Kashmir independent and in maintaining its independence have become far more formidable in view of the way in which relations have developed since then between India, Pakistan and China and, internally, between the three regions of

ANDHRA

STATEMENTS by Chenna Reddi, Chairman of the Telengana Praja Samithi, made after his two recent meetings with the Prime Minister in New Delhi, have given the impression that the Prime Minister might soon make a fresh announcement on Telengana. What she is going to say has, therefore, been a matter for speculation in Andhra Pradesh.

Yet what she will not say is almost clear: which is that the Centre will concede either of the propositions that the Praja Samithi has been openly advocating all along, viz, Telengana separation and an opinion poll. What she is more likely to propose instead is

the State. But those who assert that it is not beyond their ingenuity to evolve a formula which can overcome these difficulties have now to engage in a dialogue with those who claim that the Indian federation has potentialities of providing all that the Convention wants. The smoothness of the dialogue would depend largely on the role of the chairman of the Convention, Sheikh Abdullah, who has so far shown an unusual measure of patience and tact, excepting on an occasion or two, but who is not entirely incapable of subjective and temperamental reactions.

The mood of the Convention would be shaped no less decisively by the manner in which the potentialities of the Indian federation are unfolded and affect the people of the State. For, basically, the Convention is committed to a set of requirements and not to any particular ways of meeting them. Surely, the Indian system can go a long way to meet them on the merits of these requirements and not merely to establish a better image of itself nor even merely to appease the Convention?

The Convention has, above all, sized up the quantity and quality of that section of the population of the State that is seriously dissatisfied with the *status quo*. Powerful forces within and outside the Convention are at work to wreck it. Whether or not they succeed and whether the Convention is overtaken and overwhelmed by other events, should it not be possible to salvage the good work it has been able to do so far?

Step by Step to Statehood?

the holding of a round-table conference, of representatives of the different sections of opinion in Telengana, to discuss the issue and to attempt to evolve a formula for settlement with something of a consensus.

FOUR DEMANDS

In the field now, there is a range of four demands. First, there is the demand for a separate Telengana, publicly backed by the Samithi and some bodies like the Telengana Action Committee — which is dominated by some student elements — and also by the Telengana 'Pradesh' Congress Committee, of which Konda Laxman is the Chairman. Secondly, there is the proposal for ac-

cording statutory status to the Telengana Regional Committee, of which Chokka Rao is the Chairman. And thirdly, there is the vaguely spelt out preference for a 'Meghalaya-type' constitution for the region. Fourthly, there is still the integrationist view, proposing, yet again, a sincere trial to be given to the 8-point programme announced by the Prime Minister in April 1969, which has as its core the setting up of a number of high-level committees to deal expeditiously with the problems of Telengana's development, the Telengana services, and employment for the Telengana people, etc.

Among these viewpoints — and even less among the leaders of the groups advocating them — there has been no serious attempt at adjustment or understanding. But more recently, the enlargement of the Regional Committee's jurisdiction and powers through an amendment of the Presidential Order, has raised new hopes and kindled rethinking among the different Telengana sections. This is that, with its extended jurisdiction, the Regional Committee could be used to pave the way for a sub-State status for Telengana, and that this status could, in course of time, be utilised to achieve separation through a constitutional amendment.

Reading between the lines of Chenna Reddi's statements, it seems credible that, even the Praja Samithi will not be disinclined to compromise by way of a sub-State status for Telengana through conversion of the Regional Committee into a statutory body. Once this is done, the powers and jurisdiction, now conferred on the Committee, will enable it to function as a sort of sub-legislature, whose decisions on the various matters entrusted to its care would acquire mandatory status. They cannot then be easily rejected by the State Government or the State legislature. Consequently, though an integrated Andhra Pradesh will continue in name, it will be a magnified dummy-State, the State Government serving mainly as a respectable agency for rubber-stamping the decisions of the Regional Committee according to the priorities in the region's development programmes on allocations of Plan resources, administration of education, and other aspects of Telengana's development.

A 'Meghalaya-type' status for Telengana, to which the above change will in fact approximate, may thus commend itself to separatist elements of different hues. But a constitutional arrangement which suits the needs and

requirements of the hill districts of Assam may not prove suitable for Telengana. Besides, the proposal will have a staunch opponent in the Chief Minister, whose faith in an integrated Andhra Pradesh and in the possibility of solving the problems which face the Telengana region within the framework of an integrated Andhra Pradesh State, is undiminished. He will also be supported by some Telengana Congress leaders.

The Prime Minister may, however, take a different view — considering that, if the separatists in Telengana are not to slip out of the hold of Congress

SOUTH

Kerala Pointers

Mohit Sen

E M S NAMBOODIRIPAD has correctly identified the significance of the coming elections in Kerala. He has said that the outcome, though naturally of the greatest immediate importance, was not what mattered so much as the alignments that were taking shape and might stabilise. By this cryptic analysis, the CPI(M) leader has highlighted the meaning of the Kerala mid-term poll not only for his State but also for the country as a whole. It is the alignment of parties and forces in Kerala today that could set the pace for the immediate future of the country as a whole. And the outcome could have an important impact on the issue of unity of the Left in India.

The relation between the United Front — of the CPI, Muslim League, RSP and PSP — and the Congress(R), is not yet an alliance. But it is certainly more than a mere adjustment. There is no common manifesto and no common campaigning throughout the State. It is by no means clear that, after the elections, a coalition government would be formed by the coming together of these two forces. Nevertheless, if not an alliance, a combine or a group-*rapprochement* has been brought into being. And this has happened barely three years after the General Elections which were fought on an anti-Congress platform and in which the Congress was humbled, if not humiliated, at least as far as seats are concerned.

It might look superficially as if an opportunist *volte face* has taken place, on the part of the United Front as well as the Congress(R). But, after all, these three years have not been without ex-

(R), significant concessions will have to be made to the more vociferous among them. It is, nevertheless, quite possible that no practical or clear shape will be given to any proposals which affect Telengana's status and future till the next general elections in 1972, though some hints may be dropped to keep the different sections in good humour. On the other hand, a mid-term poll may force the ruling party at the Centre to go ahead with the changes. The first hint as to what is to follow will probably come with the Prime Minister's announcement which Chenna Reddi has promised.

tremely important events, shifts, and changes. The most important of these is, of course, the split in the Congress. It was somewhat glibly and cynically stated that this split meant nothing at all, since the undesirable elements and acknowledged Rightists were conspicuously present in the ruling Congress. Yet it cannot be denied that the split did represent an advance in the process of polarisation, though far from representing the completion of this process. And, because of this fact, all manner of fresh possibilities for democratic advance have opened up. These possibilities are not only to be seen in the Lok Sabha and the Rajya Sabha, including the recent actions with regard to patents and privy purses, but also in the States where the traditional Left parties are forces to be reckoned with.

The failure to properly assess the split, to see the likely trend of development, leads to the postulation of the Left acting independently of both Congresses, on the assumption that there is nothing to choose between the two. It is this assumption that has led the CPI(M) to set up a People's Democratic Front, consisting overwhelmingly of itself! It is true that such a Front is also the result of the concept of the 'necessity of proletarian hegemony', but in the Kerala elections it is more the outcome of the 'no choice' concept. Yet such are the compulsions of reality that the People's Democratic Front has been compelled to choose. It has had to concentrate its political attack not so much on the United Front or on the Congress(R) taken singly but on their combination. Necessarily, it says little

or nothing at all about the Syndicate or the alliance between it and the Kerala Congress. Nor is it a matter of political campaigning alone. It is quite evident in the constituencies chosen for contest and in the mutual support extended through setting up Independents whose disguise is indeed transparent. This is the position in at least about 33 constituencies.

What is of even greater significance is that the United Front-Congress(R) combine is being attacked not only by the CPI(M) but also by an important section of the Congress(R) itself, both in Kerala as also very much higher up. It is the Youth Congress wing of the Congress(R), which had advanced a radical programme some time before the split, that is taking the combine seriously and in a positive manner. So, by and large, are the radicals in the Congress High Command, though some of them baulk at the alliance or combine with the Muslim League. A section of these opponents of the combine had suggested that, if there was to be any alliance, it should be with the CPI(M) since that party alone had a mass following comparable to that of the Congress(R). Some of the others had mooted the idea of going it alone and of contesting all or nearly all of the 133 seats. Energetic action, by the Youth Congress leadership as well as that section of the High Command which accepts C Subramaniam's concept of alliances, had to be taken to bring the combine into being.

It is thus correct to state that, two combines are contending in Kerala. One is the combine of the United Front and the Congress(R) which is an open one, the other is that of the People's Democratic Front and the Kerala Congress-Congress(O) combine which is thinly disguised. It cannot escape notice that the United Front and the Congress(R) are fairly equal in their strength and that, in the United Front, no one party has a dominant position. The People's Democratic Front, on the other hand, is run by the CPI(M) and obviously is not in the least in favour of being confronted by equal electoral partners.

These alignments are important as pointers for possible alliances in the general elections. But they also reveal differing attitudes to the path of advance of Indian democracy. Certainly, there is no difference among the Communists, to whichever party they belong, as to the need to change the system through a revolution. The difference is on the possible form and dialectics of growth of the revolution. Is

it to be a once-and-for-all blow, prepared through regional insurrections in rural and urban areas which come into being through mass disillusionment with the parliamentary system? Or, is it to be through structural reforms, through achieving footholds of democratic power and linking these to the polarisation process on a countryside scale? If it is to be the latter, should not State Governments be taken seriously as levers of social transformation? The battle in Kerala is also a battle over this extremely important issue.

It would be most hazardous to pre-

SINGAPORE

White Racism in the South-East

ONE would simply shudder at the prospect of Australia and New Zealand becoming equal members in the defence organisation for Malaysia and Singapore that the British are trying very hard to evolve. Equal membership with the Australians would mean that the Australians would take over control of such an organisation and ride rough shod over their Asian partners — in the name of efficiency and superior military skills.

During his visit to South-East Asia last month, the British Defence Secretary, Carrington, had made it clear in his discussions with leaders of the area that Britain would not be able to bear the economic burden of a substantial military presence in the region, election promises of the Conservative Party notwithstanding. He also made it plain that, after 1971, when the present Anglo-Malaysian Defence Agreement ends, Britain would be able only to station a battalion in Singapore, keep a battalion in training in the Jungle Warfare School in Kota Tinggi in Malaysia, and keep a battalion of Gurkhas in Brunei. He also said there would be only a squadron of British reconnaissance planes in the area and a few naval ships.

But he then went on to Australia and New Zealand to prompt them to increase their military commitment in the two South-East Asian countries from which Britain is to pull out most of its troops. The two Governments, which actually believe that by stationing troops in Singapore and Malaysia they could prevent the march of communism to their own countries, readily agreed. They think it is better for them to fight communism on Asian soil than on their own and that it is not too great a sa-

crifice if a few of their boys get killed abroad in that process. Living in a dreamworld, the ruling politicians of Australia and New Zealand believe that communists, under foreign guidance, are going to attack Malaysia and Singapore some day, and that, if they are not defeated there, they would soon threaten the two white countries. Hence their readiness to station their soldiers in the two Asian countries.

What they do not realise is that the size of their forces is of absolutely no significance, in the event of an external force attacking Malaysia and Singapore. Australia's entire army consists of 10 battalions and New Zealand's of three. Together, their strength is just about half of the Malaysian army strength.

However, it is not about the farce of Australia and New Zealand defending Singapore and Malaysia that this correspondent wishes to write; it is about the brazen racist attitude of their troops on Asian soil.

One is aware of the racist policies of the Australian and New Zealand Governments, but one would not have been aware of their sickeningly superior racist behaviour outside of their own countries had one not attended the five-nation (Britain, Australia, New Zealand, Malaysia and Singapore) military exercise — ironically called *Bersatu Padu* (Complete Unity) — in Malaysia last month.

Of the newsmen invited to witness this exercise, almost all the Western (in fact White, because they were not only 'Western' but also Australian and New Zealand) newsmen were provided with accommodation in the military camp at Dungun, while others, mostly of Chinese and Malayan races, were

lodged four miles away in the dark and dingy hotels of a nearby town. The temporary military camp consisted of tents pitched under coconut palms on the sea-shore. The only three Asian newsmen put up at the camp — two with very European Christian names — found themselves assigned to one tent. This grouping they thought was an accident, until they went to the area where toilet facilities were provided, and later, when they went to the mess tents. The camp housed officers of the five nations who directed the exercise. But one hardly met a British officer there. They must have been with their units taking part in the first phase of the exercise (landing of a British commando group to capture an airstrip from the 'enemy'). So in the camp one met mostly Australian and New Zealand officers, besides officers of the Singapore and Malaysian armed forces. The toilets in the camp were marked 'European' and 'Asian'. They were all temporary set-ups, enclosed by gunny-sacking, but the Australians and New Zealanders always went to the 'European' ones and the Malays and the Chinese to the 'Asian' ones.

At the first briefing of the Press that evening, it became clear that the Australians were running the show at the headquarters of the exercise. An elderly Australian, Lieutenant Colonel Logan, who was in charge of the Press, gave a resume of 'what all was on for tomorrow', the first day of the exercise. Though the exercise was, in name, directed by a Malaysian officer and was on Malaysian soil, the Malaysian officers who were present at the briefing said hardly a word and sat through it all like strangers in an unfamiliar world.

Those of us who came from Singapore were told by letter to bring as little clothing as possible. We would be provided with jungle-clothing, boots, and water-bottles at the camp, so as to enable us to move with the troops, and the military plane which was to take us from Kuala Lumpur to Dungun, in the north, was expected to be so full that it would not be able to accommodate more than the smallest package of our personal items.

At the first briefing at Dungun camp, therefore, the Chinese and Malay newsmen asked when the jungle-clothing would be issued. Logan replied that the 'jungle-greens' had not been received because the plane that was supposed to pick them up in Kuala Lumpur had failed to do so. It was a great disappointment to those who had come clad in sandals and had brought only

a couple of shirts with them. The Western correspondents, however, did not need to ask for the jungle-greens.

During the first day's exercise, the newsmen had to walk through the hot sands of the airstrip and the mud and undergrowth of the surrounding jungle with the troops. At the end of the day, when they returned to the camp, there was mud all over their clothes. At that night's briefing, the Asian newsmen again asked if they would be issued the greens for the second day of the exercise. But Logan again said that these had not been received.

The first day's walk with the troops had told on the clothes and shoes not only of the Asian reporters but also on those of the Western correspondents. After breakfast on the following morning, before setting out for the exercise area, the Western newsmen congregated around Logan. Shortly afterwards, a Land-Rover drew up before our buses, to which the Western newsmen were invited by Logan and his assistants and were given jungle-green shirts, trousers, belts, hats, boots and water-bottles. When Asian newsmen got out of the buses and tried to approach the Land-Rover, an Australian Air Force officer shouted at them and asked them to stay put until they were invited. When the invitation finally materialised, not many things were left. There were some canvass belts, a few jungle hats, and three water bottles — to be shared among the 60 Asian newsmen and cameramen present!

The first night's visit to the mess was also revealing. We had been asked to buy coupons for our evening meals — the day meal was to be provided in the field. Two of us, Asian newsmen, went to the mess, submitted our meal coupons to the mess attendant, picked up plates and collected food. As we made

our way towards a tent where some people were eating, our way was barred by the mess attendant who politely asked us to eat at a table in another tent. On looking again we found that all the men eating in the tent from which we were debarred were White. Other Asian officers told us that 'that tent' was always monopolised by the Australians and New Zealanders who resented Asian intrusion.

The following day, two Asian newsmen who had left the exercise area early to cable their stories, were refused meals at the camp mess even while the Western correspondents were being served food.

Transport availability was another index. If any Asian correspondent had to go to the cable office four miles away from the camp, he had to wait for a vehicle, often for hours, until a Western newsman too was ready to go into town. Yet, whenever a Western correspondent wanted to go, transport was always available to him.

While conducting the correspondents in the exercise area, an Australian officer was heard muttering abuses at the Asians because they had failed to understand his directions given in a clipped cockney accent.

It is worth remembering that all this discrimination was practised openly by the Australians while they were, in fact, guests in Malaysia for just a month looking after the arrangements for an exercise. What would happen if they were to come in to stay 'as equal partners', in the words of Carrington, in the defence arrangements for Malaysia and Singapore? The only hope against their trampling the Asians on Asian soil could be the attitude of Malaysia, which is likely to hold that, the stationing of foreign troops in its territory is no longer necessary.

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The Relevance of Non-Alignment

A K Essack

ALTHOUGH Tanzania played host to the preparatory meeting of the non-aligned countries earlier this year, and although its President gave a reasoned and logical exposition defending non-alignment, it was soon evident that he was not able to convince all the country's intellectuals about its relevance. Controversy broke out and the *Nationalist*, official organ of the ruling TANU (Tanganyika African National Union) party, opened its columns and invited supporters and critics of non-alignment to present their views.

O Nnoli, from the University of Tanzania, analysed the background that led to the formation of the non-aligned group. He showed that it was the direct result of the cold war when the world's biggest powers, the USA and the USSR confronted each other. This manifested itself in the Berlin crisis on the one hand and the formation of military blocs like NATO, SEATO, and CENTO by the Western countries and the Warsaw Pact by the socialist states. Under this climate the smaller nations saw their security and independence threatened and therefore banded themselves together to constitute the "Third World".

The lecturer's view was that a thaw had set in and that conflict between the two big powers had given way to collaboration, not only in the field of disarmament, but in the political sphere as well. The greatest danger now facing the smaller nations was what he called "informal attacks, brought by external infiltration of domestic organisations, granting of financial subsidies to local newspapers, labour unions, political parties, the use of externally organised guerilla resistance movements, passive resistance, sabotage, use of terror and assassinations, strikes and riots, *coup d'états* and various forms of psychological and economic warfare". It was his contention that imperialism both in its old military style and new monetary form is socially and economically deforming and the threat to independence came not from membership of military alliances, but "from informal access and consequent informal attack". He therefore suggested that non-alignment should give way to self-reliance and instead of a Conference of Non-Aligned States there should be a Conference of Self-Reliance States. His conclusion was that "in the task of maximising independence, non-alignment is

obsolete; as an old habit it should be allowed to die".

A G Ebrahim did not go as far as Nnoli. The crucial question was "to get a workable definition of non-alignment which could be used as a criterion for future participation". The present criterion is totally unsuitable as "it allows a country where a right-wing *coup* takes over from a progressive, broad-based government, thereby changing the entire internal and foreign policy, to still be eligible for participation provided it does not enter into a formal military pact."

N N Sijake, discussed non-alignment from an ideological as well as practical point of view. "Our starting point" he said, "is to split the atom of non-alignment and know what powers it has and has not and whether it is useful to the development of society from the point of view of the class struggle". He added that the forces that would bring about the destruction of the capitalist system "are to be found in the class struggle and have nothing in common with non-alignment. They have something in common with something else and that cannot be neutrality, the variant of non-alignment, or non-violence, the variant of peaceful co-existence". He thus drew the conclusion that non-alignment does not conform to the laws of social development. Sijake also showed concretely that many of the countries professing non-alignment were in fact not non-aligned.

A clear exposition of the need for non-alignment was given by President Nyerere. He recognised the motley crowd that constituted the non-aligned group for "the member countries have adopted different ideologies and pursue different internal policies. We even differ in our foreign policies — and sometimes quarrel amongst ourselves... non-alignment says nothing about socialism, capitalism or communism or any other social and economic philosophy". The only point of agreement he saw, was on "opposition to colonialism and racialism, yet even on that issue we differ on tactics to be pursued. In other words we are not ourselves a block. If we tried to become one, we would split, and split and split again".

Nyerere however reiterated that non-alignment is a policy of involvement in world affairs. It is not that we have no views, or that we wish to be avail-

able as mediators and arbitrators if the opportunity occurs... our role arises from the fact that we have very definite international policies of our own, separate from and independent of either of the power blocs". In his view, non-alignment had scored a number of gains: "it has been a factor in the restlessness of peoples of satellite states; it has been a factor in smudging the edges of the cold war; it has been a factor in reducing the imminence of violent confrontation between the great powers. And it has prevented the division of the whole world into two, or even three powerful and bitterly hostile groups". He however agreed with his critics that there should be a development of non-alignment. "It has to lead to action which will help the non-aligned countries to protect their non-alignment. And it has to be done in the context of the world as it exists in the 1970's."

Nyerere also noted that political independence depended on economic independence and the stark reality was that the newly independent countries were poor. The chief danger was not from the military, but from the economic, power of the big states. The desire for development on the part of the small states made them approach the larger powers for aid and it was then that they ran the risk of being sucked into the orbit of one of the great powers. It was the President's belief that the forthcoming non-aligned conference will have made positive gains if "economic co-operation between its members was strengthened for then we can really effect changes in our vulnerability to outside pressures". The announcement that the non-aligned conference would regard economic issues as of top priority showed that it is this area where something positive is hoped for.

The African continent has had to bear the burden of being host to many conferences where resolutions have been passed without any of them being implemented. Critics see these conferences as a way of life which has become a substitute for effective action. Battles are being fought in the conference rooms while the enemies of these states continue to arm themselves and work for their overthrow. Enthusiasm for such gatherings is giving way to disillusionment and criticism is becoming more and more articulate. It is under this climate that the Lusaka non-aligned summit is being held. Something positive has to emerge otherwise critics like Nnoli would be proved right in saying that non-alignment is obsolete and should be allowed to die a natural death.

The King Can Do No Wrong

Nireekshak

SO I was not so wrong in my surmise that no mere decision of the Press Council in the *Tribune* case would alter Government's approach to public advertisements! The Press Council's verdict is unambiguous — invasion of the liberty of the Press and of the freedom of the editor and "condemnation" of this; so is Bansi Lal's rejection of the verdict. In an effort to justify the Union Government's non-committal attitude, Satyanarayan Sinha now claims that it is a matter for Government's legal experts.

But is it merely a legal issue? The Press Council derives such sanction as it has, or may hope to command, for its decisions, not from any legal powers that may be vested in it but rather from its assigned role as guardian of the freedom of the Press and from the moral commitment of the Press, Parliament and Government to respect that role. The Council, as it has itself very clearly recognised and declared in the *Tribune* case, has no powers other than moral persuasion to enforce its decisions. According to it, its adjudications are not even advisory and which might be taken into consideration by the Government or any other public authority, but are merely the means of "enlightening public opinion on what in reality might be a threat to the democratic process by interfering with the working of a free Press on which democratic polity rests".

The only legal issue that the Council's decision — or rather, the Haryana Government's plea before the Council — has raised, is the Council's jurisdiction to entertain complaints against governments. Several State Governments have in the past brought before the Council their complaints against newspapers, so it would be odd, indeed, to refuse reciprocal right to newspapers if they wish to complain against State Governments.

It was to be expected that the Press itself would welcome the Council's verdict. *Hindu* described what had happened as "an important blow to the freedom of the press". The verdict "must certainly give (the Haryana Government) food for thought, for, its motives now stand exposed before the bar of public opinion". *Hitavada* too welcomed the verdict, for, among other things, "advertisement is neither charity nor grant-

in-aid and therefore cannot be used either to do favour or to inflict punishment". *Hindustan Times* thought it was "a verdict to respect". It "sets an important precedent which the Chief Minister might dismiss as not binding on him but which the State Government cannot ignore". The paper made the point that the "issue is not a legal one or else legal remedies might more appropriately have been sought. It belongs to the domain of public policy where other norms and standards that go with the concept of a free society must obtain". *Mail* argued that "a damaging case of how a Government has encroached on the liberty of the Press and threatened the freedom of the editor has been established without reservation by the Press Council", while *Nagpur Times* said the "verdict is highly significant" against the background of the Central and State Governments' "hostile attitude (to) the Press in general in this 'new era of gilded socialism'".

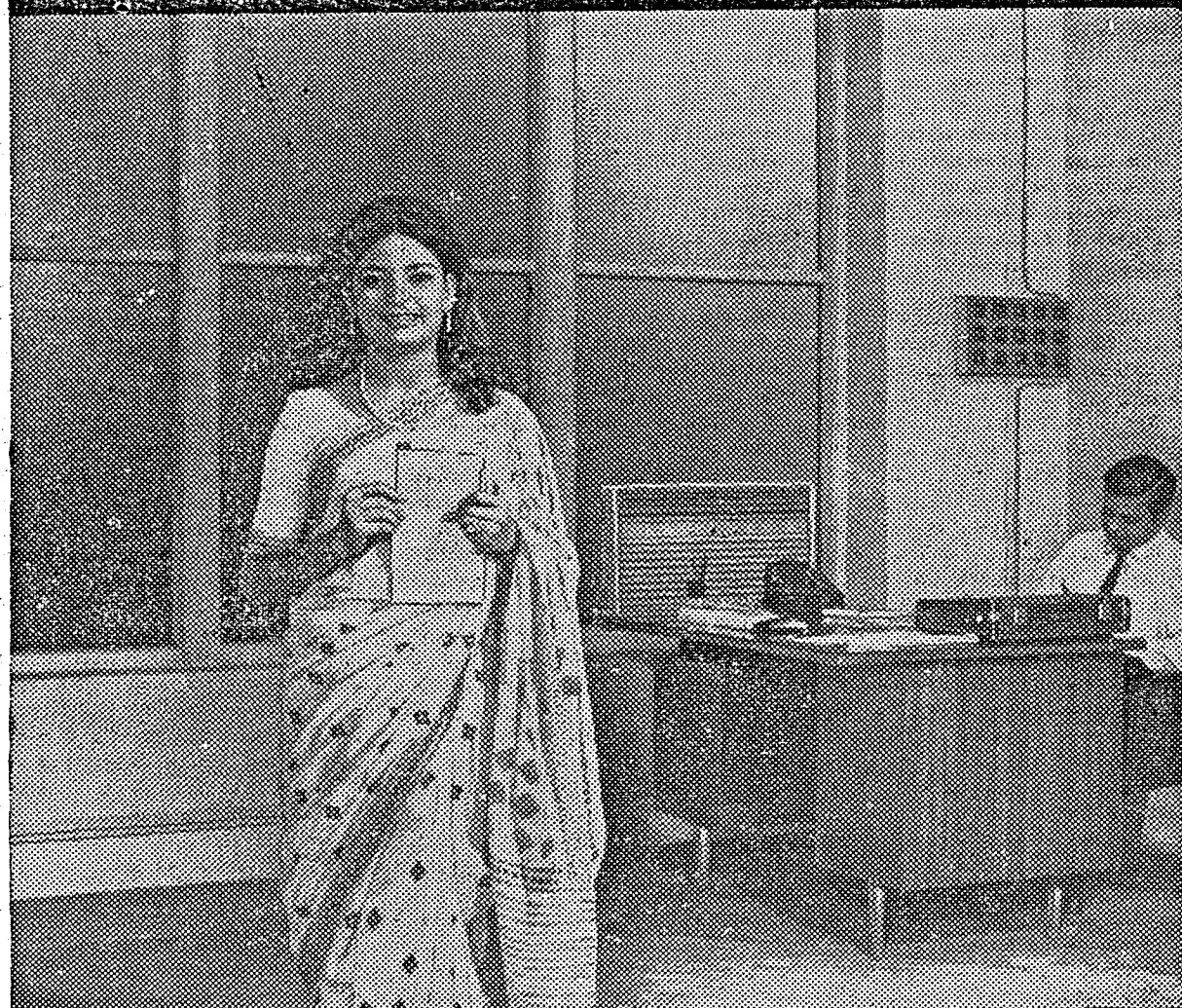
By a coincidence, Government ordered the closure of the BBC office in New Delhi about the same time that the Press Council announced its decision in the *Tribune* case. And, quite predictably, sparks flew all around. *Indian Express* asked in a stentorian tone "how imbecile can (the South Block) be?" The Government's reaction "was quite disproportionate to the cause of the offence given, and in the manner of its handling, almost childishly naive... To shut down a broadcasting organisation and order its correspondent out of the country is a serious matter for a democratic government to embark upon". *Statesman*, which now frequently sees in Government actions evidence of New Delhi's "softness" towards Moscow and "hardness" towards the West, didn't quite believe it was fortuitous that action against the BBC came so soon after the public outcry against Russia's "cartographical aggression" against this country. "This, of course, may be coincidence", it wrote, "[but] it does not always appear so. Hadn't Government's decision to close some American libraries come immediately after an 'unauthorised' Russian cultural centre had crashed in Trivandrum?"

Times of India, quite belatedly as is now its custom, said Government's action was "ill-advised". It is one thing "to express its (Government's) re-

sentment and quite another to take retaliatory action which can logically end only in complete censorship of unfriendly or unsympathetic portrayals of life here". Surely a "clumsy over-reaction", pontificated *Hindustan Times*. "The 'principle' that Government is in fact asserting is that all foreign news media should conform. If this is accepted, then freedom of the Press within the country too will soon disappear because Authority is displeased."

It would be a mistake, however, to conclude from all this that the Press has reacted generally unfavourably to the Government decision. More newspapers probably welcomed it than attacked it. Curiously enough all the attack was concentrated in the bigger metropolitan newspapers, while the entire provincial Press welcomed it! *Indian Nation*, for example, thought it was "justified action". "No question of freedom of the Press was involved", it said. "The BBC has not observed journalistic standards and so it cannot claim certain privileges informally available to the Press. On the other hand, the BBC has shown imperial haughtiness and disregarded Indian sentiments as if Britain is still ruling India. Apart from being sheer nonsense (its) explanation reveals a mind impervious to reason". *National Herald* went to town on BBC's "neo-colonialism". "The action that India has taken is legitimate", it wrote. "It is a protest against the BBC's arrogant, neo-colonialist attitude... Most Indians will not accept that the BBC has anything to teach them about democracy or the ways of freedom". *Searchlight* similarly opined that India had "taken the right attitude towards the BBC". There is also little doubt, it added, "that the British Government has given its support to the BBC". *Deccan Herald* and *Hindustan Standard* also supported the Government action, *Herald* saying "it is certainly odd that the BBC's right to malign India has apparently found stout champions in this country too". It seems only *Free Press Journal* has found nothing to say about the BBC affair. *Bharat Jyoti*, *Journal's* Stablemate, did publish a comment by its columnist, Lyceus, but there was no editorial reaction. Even on the Press Council decision it was not till last Saturday, a full nine days after the decision was announced, that *Free Press Journal* took note. Only one of those things, perhaps, that must be expected from a newspaper which has no working editor at the head of its editorial affairs!

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The Anatomy of Welfare

Prasanta K Pattanaik

A Reappraisal of Welfare Economics by S K Nath; Routledge and Kegan Paul, 1969; pp vii+247; £ 2.50.

AS S K Nath tells us in the preface, the book "is a reappraisal of welfare economics because it questions the logic of some of the commonly accepted propositions of *a priori* welfare economics — propositions which have survived earlier appraisals of the subject. At the same time we emphasise the importance of some of its relatively neglected concepts, which are useful even when an *ad hoc* approach to welfare economics is adopted. We argue for such an approach". According to his definition, the methodological distinction between these two categories of welfare economics — '*a priori*' and '*ad hoc*' — is as follows. '*A priori*' welfare economics seeks to deduce policy conclusions from value judgments which are in some sense or other widely acceptable, general or minimal so that these conclusions themselves may be quite general or non-controversial. In contrast '*ad hoc*' welfare economics is based on value judgments which have no claim to be widely acceptable — value judgments which particularly appeal to a comment-maker or a decision-maker. The author includes in the category of '*a priori*' welfare economics the neo-classical theory centred around the concept of Pareto optimality and the connection between Pareto optimality and perfectly competitive equilibrium as well as the theory developed on the basis of compensation criteria. It is not quite clear whether he considers the line of inquiry initiated by Arrow [1] as belonging to the same category but he tells us that it involves the same type of 'doubtful logic' (p 131) which he attributes to '*a priori*' welfare economics in general.

The book may be broadly divided into three parts which we comment on in sections I, II and III respectively below. The first part which covers mainly Chapters II, III, IV and V is a critique of '*a priori*' welfare economics 'on its own terms', i.e. granting the methodology of basing policy conclusions on widely acceptable value judgments. The second part which gives the author's methodological criticisms of '*a priori*' welfare economics and also contains his constructive suggestions consists of Chapter VI. The third part

covering Chapters VII, VIII and IX is a study of more specific issues (e.g. welfare propositions in the theory of international trade). Here the emphasis is on a reappraisal of the propositions of '*a priori*' welfare economics in these specific contexts.

I

The critique of Paretian welfare economics in the first part is fairly detailed. The main targets of criticism are the limited ethical significance of the notion of Pareto optimality and the restrictive sets of conditions under which the two optimality theorems (that every perfectly competitive equilibrium is Pareto optimal and that every Pareto optimal state can be visualised as a perfectly competitive equilibrium) are respectively true. Thus it is pointed out that there is usually not one unique Pareto optimum but several Pareto optima which are non-comparable under the Pareto Criterion; that a Pareto optimal state need not necessarily be Pareto-wise superior to a Pareto inoptimal alternative, and that non-distortionary transfers on which much of the significance of the second optimality theorem depends are a remote possibility. In discussing the possibility of lump sum tax-cum-transfers Nath emphasises the administrative difficulties. But political infeasibility may be a still more formidable problem in this context. The restrictive nature of the factual assumptions (e.g. absence of externalities, convexity and so on) required for the validity of one or the other of the optimality theorems is also discussed in detail.

Much of the ground covered here is analytically already familiar. However, what distinguishes Nath's treatment from that of many other writers is the difference in emphasis. For example, instead of introducing externalities, uncertainty, and market imperfections as mere qualifications to be recognised after an exhaustive discussion of the optimality theorems, Nath keeps precisely these factors at the centre of his discussion. Also notable is the fact that Nath questions the general acceptability of many of the Paretian value premises, which is sometimes taken for

granted. For example, he cites several legislative measures (e.g. compulsory education, tax on alcohol, subsidised libraries) which can be interpreted as being based on the notion that the individual is not always the best judge of his own welfare. On wishes that he had gone a little deeper into this question for the meaning of the proposition that the individual is the best judge of his own welfare is not quite obvious and there can be several interpretations of the proposition. At a more superficial level it may also be noted that many of the legislative measures cited by him can be given an alternative rationalisation in terms of the existence of externalities. However, in the over-Paretian world of welfare economics Nath deserves our gratitude for emphasising the limitations of the Paretian system and its major product — the two optimality theorems.

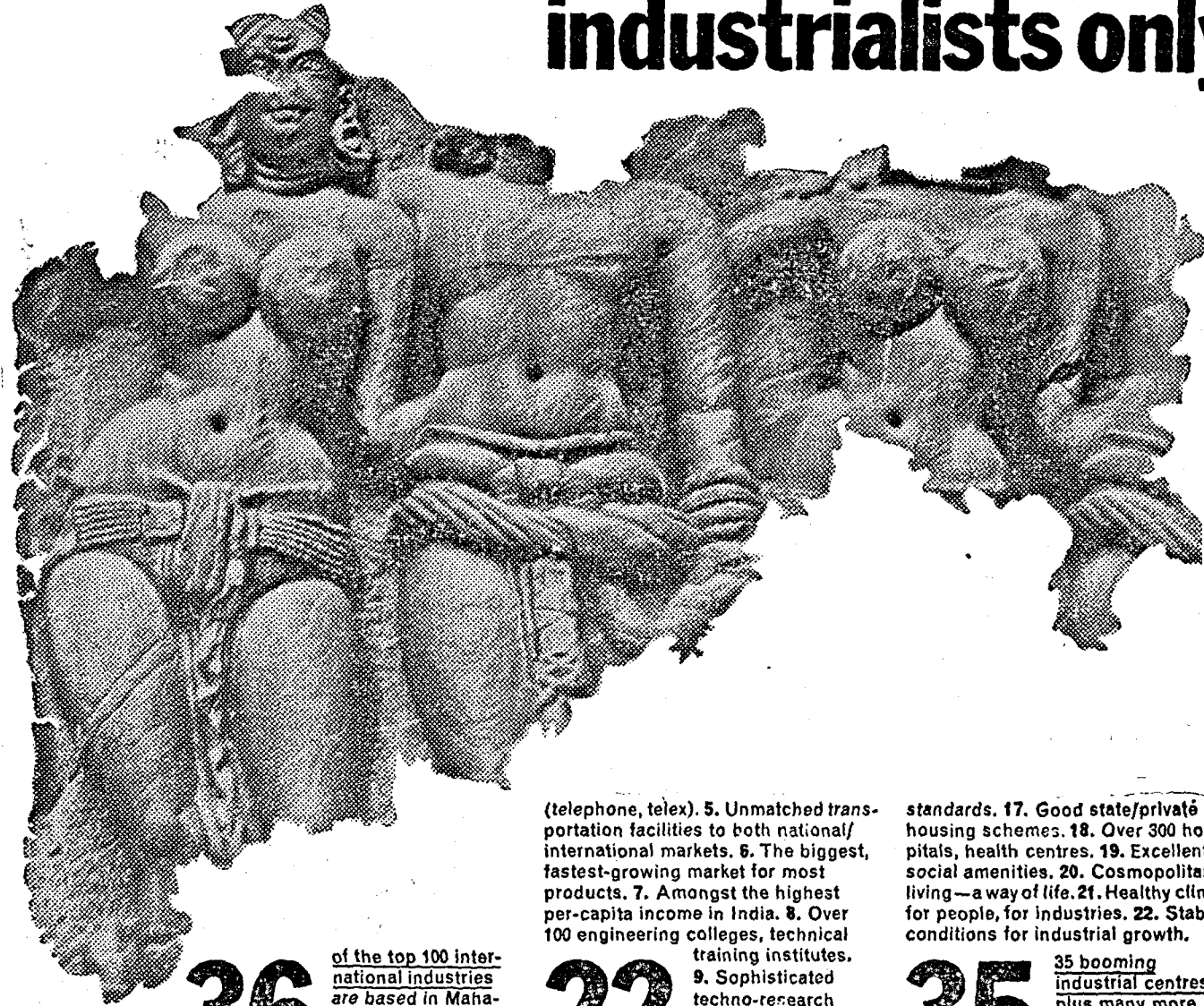
While reading this part (as well as the rest of the book) one wishes that the arguments had been presented in a more rigorous fashion. Slips which would have been avoided in a logically more tight presentation have sometimes confused the issue even when the author is making a valid and valuable point. As an instance the following passage (p 127) may be cited:

Further, the most important of the Paretian value judgments is that social welfare is to be considered a monotonic increasing function of individual welfare, that if one person's income and leisure increase while those of others remain the same, then social welfare increases... this value judgment would imply the approval of a series of economic policies which raised the standard of living of a group or two but left those of the others unaltered.

What exactly is Nath criticising here: (1) "that social welfare is a monotonic increasing function of individual welfare" or (2) "that if one person's income and leisure increases while those of others remain the same, then social welfare increases"?* It is not quite clear. It is true that in the presence of the assumptions that the individual is non-satiated and that his welfare depends on his consumption bundle only, the second proposition follows from the first though even here the two are not exactly equivalent. If, however, we are taking the Paretian system apart and are analysing the premises separately, as is being done in the passage

* Nath calls the second proposition the Pareto Criterion; the usual practice, however, is to reserve this title for the first.

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quoted, then a sharp distinction has to be drawn between the two propositions. Without any further assumption Proposition 1 by itself cannot lead to the approval of the type of economic policies that Nath mentions nor presumably would Nath be very upset by the rising income and leisure of a group or two (assumed to be the richer sections of the community) while that of others is left unaltered if this really increased the welfare of that group or two without diminishing the welfare of any other. It seems that in spite of the fact that Nath uses the two propositions interchangeably here, what he is really worried about is Proposition 2.

The issue again becomes obscured when in reply to Fisher's [2] defence of Proposition 2 that the gaining group does not gain at the expense of the group whose absolute share remains the same Nath argues (p 127):

But surely to the extent that an economy uses its scarce resources in order to move in one direction, it has less of them left, in the short-run at least, to move in another direction. Therefore, as only the rich gain from a long succession of economic measures, it is in a real sense at the expense of the poor.

Proposition 2 would probably be unacceptable to most of us but it would be so because of the existence of what may be called the non-consumption effects on individual welfare which Nath mentions elsewhere in the same discussion. But contrary to what is implied by the passage quoted above, the value judgment embodied in Proposition 2 cannot lead to the choice of a policy which increases the absolute share of the rich leaving that of the poor unaltered, when another policy is available which could have increased the absolute share of the poor. A numerical example may help to make the point clear. Let there be only one commodity; only three available social alternatives x , y and z (x being the initial situation); and only two individuals A (the rich man) and B (the poor man). Let the distribution between A and B be as follows:

	A's Share in Terms of Units of the Commodity	B's Share in Terms of Units of the Commodity
x	80	20
y	180	20
z	—	21

(unspecified)

Clearly Proposition 2 in itself cannot lead to the choice of y here. For, though x is inferior to y under Proposition 2, x is not so. In fact, if the share of A in z is less than 180, then Proposition 2 does not define any 'best' element in

the set (x, y, z) . A society which adopts Proposition 2 as its only guiding principle will face trouble in this situation not because it will make an ethically undesirable choice (though Proposition 2 is ethically unacceptable) but because it will not be able to make any choice at all.

II

The examination of the Paretian system and the compensation criteria is followed by a methodological critique of 'a priori' welfare economics in general and the constructive suggestions of Nath. This is probably the weakest section of the book. This is mainly due to the fact that the constructive suggestions of the author are not well developed; they are more of a loose sketch rather than the systematic exposition that one would expect to follow the detailed critique of 'a priori' welfare economics. But it is also to a substantial extent due to a failure to appreciate the significance of Arrow's [1] contribution in this context. First, we may consider the methodological criticism of Nath against 'a priori' welfare economics. According to him, if the welfare economist is to make recommendations at all, then he has to commit himself ethically by introducing the value judgments that appeal to him. The mere fact that a certain value judgment is widely accepted in a society does not help us to make recommendations on the basis of it unless we ourselves subscribe to these widely accepted value judgments:

If the country in question is a democracy, then the political, administrative, or government decisions have to be taken on the basis of majority approval, but there is no compelling moral or logical need for all comments and recommendations also to be based on what is 'widely acceptable' (p 128).

Most of us would probably agree with the basic methodological position that welfare economics is essentially concerned with policy recommendations and that in making recommendations the welfare economist has to commit himself to a set of value judgments though there is also no reason why analysing the implications and inter-relationship of widely accepted value judgments (which he might not be challenging or subscribing to) should not form a part of the welfare economist's function. But granted this, the question arises whether in general the economists who claim the Paretian value judgments, and in particular the Pareto Criterion, to be generally accept-

able just make an objective statement to the effect that the value judgments in question are widely accepted in their societies. Probably most of them mean something more; they imply that they themselves accept these value judgments and that they find these (especially the Pareto Criterion) according to which social welfare increases if at least one person becomes better off and everybody remains at least as well off as before) so weak that they do not see why anybody would object to them. The major difficulty with much of what Nath calls 'a priori' welfare economics was probably not so much that the economists in this tradition did not commit themselves ethically to any value judgment as that for too long they were building an elaborate structure on an ethical basis (namely the Pareto Criterion) which is really too weak to take us very far. The need was for going further and exploring other ethical judgments. This is what Arrow [1] did in his seminal work and came up with his famous paradox. Nath, however, thinks it to be 'of very little significance' (p 133). He argues that it is relevant for decision-making but not for 'comments and recommendations'. What seems to be overlooked here is that recommendation itself can be at several ethical levels. Consider the following:

- Sex education in the schools is undesirable . . . (i)
- However, excepting me the entire community thinks otherwise . . . (ii)
- Therefore sex education should be imparted in the schools . . . (iii)

Propositions (i) and (iii) both have recommendatory force and both of them can be the subject of rational ethical argument. The recommendations implied by (i) and (iii) conflict. There is, however, no deep contradiction here. What is really happening is that the value judgment (regarding the social decision process) that the opinion of a single individual should not prevail over that of the rest of the society overrides the recommendation implied by (i) and as a result we have (iii). By recommendation or comment Nath probably means proposition such as (i) above while by decision he probably refers to the results such as proposition (iii) which emerges after we introduce the values regarding the group decision process. However, it should be recognised that these results have an ethical and recommendatory force so long as we assent to the values about

the decision rule. Arrow's conditions, like the traditional Pareto Criterion, are precisely such values regarding the groups decision rule and it is difficult to see why this should make his theorem any less significant for welfare economics if welfare economics is to be concerned with recommendation in a wide sense.

Nath rightly emphasises that Arrow's analysis rules out the possibility of taking into account intensities of individual preferences, and that this constitutes an objectionable feature of the analysis. He holds Arrow's Condition 3 as being responsible for this. However, even in the absence of Condition 3 there would still be no way of taking into account the intensities of individual preferences in Arrow's framework, since the social welfare function is defined as a functional rule which specifies one and only one social ordering for each set of individual orderings in its domain. It should also be noted that Nath would introduce interpersonal comparison of utility not "as comparison of facts" but as "value judgments or ... 'conventions'". (For example, it may be introduced in the form of the ethical premise that "individuals should be treated as if they had the same degree of sensitivity and the capacity to enjoy life and ... as if they had more or less similar tastes unless there is some special evidence to the contrary in particular cases" [pp 134-135]). Regarding measurability and interpersonal comparability of utility as a factual question he takes a somewhat puzzling stand. He considers this question to be trivial and irrelevant to welfare economics (p 3). The main reason that he gives for this is that even if measurement and interpersonal comparison of utility were possible in practice, no judgment regarding social welfare could be made without explicitly or implicitly introducing some ethical rule for aggregating the utilities measured. This is true. But surely to conclude from this that the factual question of measurability and interpersonal comparability of utilities is trivial or irrelevant for welfare economics involves a *non-sequitur*. Even after I know the shape, the colour, the polish, etc., of two tables I still require some aesthetic standards to declare that one is nicer than the other. But that does not make all this factual information irrelevant for my final judgment.

III

Nath also discusses certain more specific issues in welfare economics such

as the running of public enterprises, welfare propositions in the theory of international trade, and economic development. The reader will find many interesting and thought-provoking ideas in this part especially in the chapter on international trade where some fundamental welfare propositions of trade theory are incisively analysed.

A word about the style of the book may not be inappropriate here. The book would have been much more pleasant to read without the rather aggressive tone that has been adopted in discussing the works of most of the well known writers in welfare economics. The strong negative remarks are especially regrettable when the criticism levelled against the writer under consideration is not quite fair. A single instance may be mentioned. Not many readers who are unfamiliar with Sen [4] and who read Nath's comments on "this wrong claim about transitivity ... made by Sen" (p 113) are likely to get a very correct picture of Sen's position here. The fact is that in interpreting Little's [3] criterion Sen [4] was exclusively concerned with *Paretian* social welfare functions and was explicitly dealing with the following test of Little: "an economic change is desirable if (a) it would result in a good redistribution of wealth, and if (b) the potential losers could not profitably bribe the

potential gainers to oppose the change." It can be easily checked that Sen's [4] claim about transitivity is perfectly valid in this context even though it may not apply in the case of non-Paretian social welfare functions or in the case of other tests of Little — cases with which Sen [4] was not concerned.

In conclusion, it may be pointed out that though much of the space here has been devoted to what seem to this reviewer to be flaws of the book, it should not obscure the fact that the book is a valuable contribution insofar as it raises and analyses some of the troublesome questions (especially regarding the Paretian system) which are often not asked at all or which, if asked, tend to be forgotten in the profession.

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Product Policy

V S Kumar

Product Management by Om P Kaushal; Lalvani Publishing House, 1969; pp x+275; Rs 30.

THIS is a compilation of articles on product policy and allied subjects by well known personalities from American business education. It includes articles by Ernest Dichter and Joel Dean which are on the reading list of every student of management sciences.

As the editor, O P Kaushal has put in considerable effort (with the able assistance of two other professors) in writing the introduction, compiling the index, obtaining permission for reproducing the articles and getting the Foreword written by Edward Bursk. As an exercise in the dissemination of knowledge this is highly commendable.

At what segment of the market does this compilation of Kaushal aim? The answer is certainly not the full-time students of Management Science since they would have read these articles in the recommended list of readings scat-

tered over different compilations mostly emanating from the United States. One must, therefore, assume that the book is intended for the busy business executive who has hardly any time for serious reading, leave alone make a selection of worthwhile articles from journals. Considering this segment, Kaushal has shrewdly adopted an approximate pricing policy (Rs 30 for eighteen articles) as a good example in effective product management. Maybe, at least after the product experience of purchasing this book, the Indian Manager will decide for himself that in future he would much rather find time to scan through professional journals like the *Harvard Business Review* or *Management Review* instead of buying high-priced, outdated (all the articles are at least 7/10 years old) compilations.

Modernisation and Rural Stratification

An Application at the Micro-Level

K L Sharma

Modernisation depends upon two basic characteristics of society, viz, institutionalisation of modern values and adaptability of the society concerned. These two attributes are closely associated with stratification and cultural legitimization.

The nature of our stratification system is segmental and hierarchical based on certain historical forces. The difficulty is not in changing the values of this system. The difficulty is that, there is a pervasive and acute lack of means among the already non-privileged to adopt and internalise the modern values.

The privileged groups are in a position to adopt these values, and are consequently able to maintain qualitatively the same status-distinctions in relation to the non-privileged sections, though now on the basis of new factors such as education, office, economic position, white-collar jobs, outside contacts, and styles of life.

So value-change does not come as a barrier in the process of modernisation. It is the unequal or differential accessibility to the attributes of modernisation which is the barrier and which is basically due to the particularistic nature of our stratification system. Because of this, institutionalisation and legitimization of modern values are partial, limited and un-universalistic.

[The author wishes to express his deep sense of gratitude to Yogendra Singh for his extremely valuable guidance in preparing this paper. Responsibility for the views expressed, however, is entirely his.]

THE dichotomy between tradition and modernity and the conceptual distinctions between modernisation, Westernisation, and mobilisation, have been incorrectly apprehended. Modernisation is a broad, logical, value-free concept compared to Westernisation,¹ secularisation² and mobilisation.³ Besides, there are divergent views about the scope and area to be covered by the concept of modernisation. Sutton limits modernisation to agriculture, industry, technology and ecology.⁴ Apter confines it to the political realm.⁵ The psychological meaning is subscribed by Lerner.⁶ And 'primary of science' and secular life-ways are advocated by Horowitz.⁷

Misgivings about modernisation do not end here. Srinivas prefers Westernisation and secularisation to modernisation,⁸ because the value of 'humanitarianism' is implicit in Westernisation and this value includes two other values, viz, 'equalitarianism' and 'secularism'. The latter of these two includes 'rationalism'. Srinivas's analysis of Westernisation and secularisation categorically implies the dichotomy of tradition and modernity as absolute and separate polarities in Indian society. Expressions such as, Western ideology, technology and education replace traditional patterns, and secularisation roots out 'sacred' or religious elements from society.⁹

Similarly, modernisation has been equated with mobilisation. Deutsch explains that social mobilisation denotes most of the socio-demographic aspects of modernisation. He defines it as a process through which old commitments are eroded and broken and new patterns of socialisation and behaviour are made available.¹⁰ The dichotomy between tradition and modernity is quite explicit in the view of Deutsch too. There are some who regard the advent of modernisation as a consequence of the adoption of a new ideology.¹¹ And there are others who hold the view that factors responsible for modernisation may be both the internal inconsistencies of the value-system of a society and the external or structural forces of change.¹²

Gusfield has exposed some of the 'fallacies' related to the twin concepts of tradition and modernity.¹³ The concept of modernisation, however, still remains to be adequately defined. A four-fold classification of the divergent views on modernisation has been recently made by Yogendra Singh.¹⁴ We shall come to his view in the ensuing sections of this paper.

This author does not wish to get involved in the definitional wrangle as there is a paucity of empirically verified statements about the relationships involved. We corroborate the views of some others (Gusfield, Singh, etc) that

tradition and modernity constitute a single simultaneously on-going process. A society may have modern values in certain respects and traditional values may prevail in other respects. The modern may become traditional in course of time and *vice-versa*. This logic applies to individual human beings as well. The same man in one situation may behave in a traditional, dogmatic and religious way, and in another he may behave differently, as a secular, rational and democratic being. Keeping in view this meaning of the term modernisation, we propose to test how and in what ways the stratification system is being altered by the forces of modernisation. Do forces of modernisation provide its fruits equitably to all sections of society? If not, what are the root causes of this inequitable distribution of the results of modernisation? An effort has been made to elaborate these points in the next section of this paper.

II

Following the view advanced by Gusfield, that modernisation does not stand as an opposite polar to tradition, does not weaken the concept of tradition, nor does it follow that tradition and modernity are found in a form of a synthesis.¹⁵ These are continually generating, renewing and renovating parts of the same process of change.

TABLE 1: DISTRIBUTION OF TRADITIONAL OR CASTE-BASED OCCUPATIONS (PURE AND IMPURE) AND SECULAR OR NON-CASTE OCCUPATIONS

Caste	Traditional or Caste-Based Occupations (Pure and Impure)	Secular or Non-Caste Occupations	Total
Upper	203(54.0)	173(46.0)	376(100.0)
Intermediate	751(88.4)	98(11.6)	849(100.0)
Lower and 'Untouchables'	519(90.7)	53(9.3)	572(100.0)
Muslims	50(48.5)	53(51.5)	103(100.0)
Total	1523(80.1)	377(19.9)	1900(100.0)

Chi² = 301.4 P .001

Modernisation denotes change not only in the sacred or the non-sacred existing components of social organisation, but also the adoption of new forms of social, economic, cultural, political and psychological values, means and relationships. As such, modernisation becomes both an instrumental value and an articulate device for change in the existing economic, social, political and cultural structures. The existing values, however old they might be, could be even more pragmatic and utilitarian than newer values. The newer values are taken up not necessarily by discarding the existing ones; they may be adopted for reasons of greater efficiency, economy of means, and rewards. The new values may be innovations of the 'moderns' or they may be borrowed from certain sections of the same society or that of aliens.

Talcott Parsons's view about 'evolutionary universals' is that of a complex of structures and associated processes which explains the 'general adaptive capacity' of the society. Parsons mentions two universals among many others responsible for continuous adaptability and institutionalisation of the existing order. These universals are, the development of a well-marked system of social stratification and of a system of explicit cultural legitimisation of differentiated social functions.¹⁶ These two universals are constantly evolutionary and make provision for both sustenance of the social order and new adaptations through legitimisation and institutionalisation. In this context, modernisation is a historical process, adapted and legitimised by the stratification system.

Singh explains that growth in the process of modernisation could be evaluated at two levels: (1) as a system of values or world view; and (2) in terms of the role-structures.¹⁷ Modernisation requires 'infrastructures' and a 'scientific world-view'. This has support of the two universals examined by Parsons viz, that of stratification system and cultural legitimisation.¹⁸

We propose to analyse the process of modernisation in terms of the view expressed by Singh — in terms of adoption of new values — and the emergent role structures, in six villages in Rajasthan.¹⁹ We shall have to see the relationship between the stratification system and cultural legitimisation on the one hand, and the adaptive values on the other. The nature of the process of modernisation is also to be examined which Singh explains in terms of 'distributive justice'.²⁰

The following set of questions seems relevant in this regard:

- (1) Which are the sections of population that are most modernising?
- (2) How far is the structure of these villages being differentiated by this process?
- (3) What institutions and norms have been taken up in these villages as a result of the recent structural changes in Indian society at large?
- (4) What patterns of stratification are likely to emerge as a result of the process of modernisation?
- (5) What specific hindrances come in the way of modernisation becoming a general societal process in the villages under investigation?

To test these questions, we propose to take up some indices — such as caste, class, power, occupation, education, styles of life, etc — and to analyse them on the basis of the data available from the six villages.

III

As we understand it, modernisation results in a high level of structural differentiation and social mobilisation — in terms of large-scale unified and centralised institutions and establishment of viable, flexible and yet effective symbolic and organisational centres — that are responsive to the continuous problems of modernisation and to the regulation of them.²¹ To what extent the new role structures have come up as a result of

this process, how far their nature is particularistic or generalised, and whether they are viable and flexible adaptations, are some of the major questions to be examined on the basis of data gathered for the above referred study. An examination of the following aspects enables evaluation of the kind required by these questions.

Occupation

The data reveal that the traditional occupational structure continues to exist to a great extent alongside the emergent economic role structures. The present occupational structure in the six villages is a conglomeration of the two structures, e.g. traditional (caste-based) and secular (non-caste based). Today, the majority of the castes do not exclusively carry out either the traditional occupations or the secular occupations.²² The choice of the new occupations and the rejection of the old ones is pragmatic and selective in character. There are castes which have discarded traditional occupations because they were considered 'impure' or 'unclean' or 'lower' or 'Kamin', i.e. because of the stigma about the polluting nature of their traditional occupations. These castes even had to face some initial economic hardships, as the rejection resulted in unemployment and imbalances in their economic standards.

On the other hand, there are certain caste groups, particularly the ex-Zamindars, who have been forced to take up certain lower and degrading occupations, such as, manual labour, peonship, and domestic work. This drastic change is a result of the structural changes that took place with the abolition of the Jagirdari and Zamindari systems.

The continuity of tradition with modernity in the occupational field is evident from Table 1.

Out of 1900 male workers, 20 per cent are engaged in secular occupations. The upper castes have adopted new or secular occupations more than the lower castes have done. Of them, 46 per cent have taken up secular occupations, whereas among the intermediate and the lower castes the corresponding percentage is 11.6 and 9.3, respectively. One reason for this simultaneity of traditional and secular (modern) occupations is that the village does not provide employment to all the members who were in the traditional occupations before, and consequently a few of them have to seek alternatives either in the village or outside it. The other reason is that some persons are

TABLE 2: SECULAR OR NON-CASTE OCCUPATIONS WHICH DID NOT EXIST THREE DECADES AGO

Occupations	Upper	Intermediate	Lower and Untouchable	Muslim	Total
1 Industrial labourer	14	26	20	1	61
2 Teacher and clerk	38	11	1	—	50
3 Peon	4	7	2	3	16
4 Wineseller	2	—	—	—	2
5 Teashopman	8	3	—	—	11
6 Police and armyman	34	33	6	43	116
7 Railway gangman, jamadar and inspector	—	2	16	—	18
8 Milk seller	1	3	1	—	5
9 Panchayat samiti extension officer	2	4	—	—	6
10 Excise inspector	—	1	—	—	1
11 Motor driver	1	4	1	2	8
12 Shop assistant and accountant	52	2	2	1	57
13 Patwari	4	—	—	—	4
14 Laboratory assistant	1	—	—	—	1
15 Khalasi (motor cleaner)	—	—	—	1	1
16 Bus conductor	—	—	—	2	2
17 Forest officer	1	—	—	—	1
18 Vaidya (ayurved doctor)	6	—	—	—	6
19 Telephone operator	2	—	1	—	3
20 Postmaster	1	—	—	—	1
21 Vaccinator	—	2	—	—	2
22 Postman	1	—	—	—	1
23 Tonga driver	—	—	3	—	3
24 Engineer	1	—	—	—	1
Total	173 (46.0)	98 (26.0)	53 (14.0)	53 (14.0)	377 (100.0)

willing to discard the traditional occupations but do not find suitably remunerative jobs; they therefore stick to the traditional ones in the absence of suitable alternatives. Some persons still continue to derive gainful remunerations from the traditional occupations. Others have discarded these callings even at economic loss or hardship on account of leaving them.²³ Thus the nature of the existing continuity of tradition and modernity in the occupational realm is diverse, selective, pragmatically-oriented and circumstantial.

The factors responsible for occupational diversification (cutting it off from the association of caste) are both structural and cultural. These factors have, however, not resulted in 'equalitarianisation' or 'distributive justice' in the six villages. The prestigious secular occupations are being virtually monopolised by the ex-privileged castes. This is because the earlier privileged positions of the upper castes enable them to acquire the new bases of higher social, economic and political positions. The non-privileged castes are unable to afford the cost of acquiring these new bases of prestige and power which are higher education, white collar jobs and formal offices of power, such as the

Panch and the Sarpanch. These lower sections of the village population imitate what the higher castes discard deliberately and what they are even reluctant to take note of as imitation by the lower castes. In fact, the upper castes are in a position to preserve the prestigious elements of status determination from the traditional stock and to add to it from the new avenues, such as, modern education, village panchayat system, white collar occupations, and outside contacts.

An analysis of the distribution of secular (non-caste) occupations reveals (see Table 2) that the upper castes have a near monopoly over the more income-, prestige- and power-providing occupations and avenues.

Though the upper caste male workers constitute about 20 per cent of all workers, yet they are 46 per cent of the total secular job-doers. Most of the white collar job-doers in these villages are from the upper castes. This is due to the fact that these jobs are a regular source of cash income. These occupations involve less, or no, manual labour. As such, the upper castes not only have higher income, but are in a position to maintain certain styles of life in the changed circumstances. In

this context we observe a lack of distributive justice. Theoretically, modernisation is open to all — in terms of exercise of fundamental rights of receiving higher and professional education, migration and taking up of jobs of one's liking, etc — but practically the doors are open only to a small minority. The capacity for adaptability is differential. Taking secular occupations as one index, it can be said that the higher castes are more 'modernised' than the lower castes.

Education

Education is one of the most significant determinants of status in the present-day village community. Modern education, and particularly higher education, is again virtually a monopoly of the higher castes. It is college and university education which extends the horizon of occupational possibilities by providing the formal qualifications required for superior occupations and intellectual superiority to those who achieve it.

An analysis of the data about graduates (including intermediates) shows that, about three decades ago, there was not even a single graduate in these six villages. Today, there are 29 graduates and 74 matriculates, who, invariably, in all the six villages, are from among the Brahmins, Rajputs, Banias and Jats. There is besides a tendency among the upper castes to send boys for technical and medical education. Two engineering graduates, one medical graduate, and all the graduates in science, arts and commerce are from among these higher castes.

Besides the coincidence of caste rank and educational achievements, class position is also associated with attainments in the educational field. This is because of the considerable congruence between caste and class ranks. Table 3 shows the relationship between class and education.

It is evident that the ex-better-off class groups can afford the expensive higher education, whereas these opportunities are virtually closed to the lower classes because of their economic incapability to bear the expenses of modern professional and university education.

We find that there is not one graduate from among the lower classes. More than two-thirds of the total number of graduates come from the higher classes and castes. There is one graduate and one matriculate among the higher classes to every 5 and 2.5 families, respectively. The proportion of the graduates and matriculates is very low

TABLE 3: CLASS POSITION AND EDUCATIONAL ACHIEVEMENTS

Class	Graduates	Matriculates	Total
High	20 (33.3)	40 (66.7)	60 (100.0)
Middle	9 (25.0)	27 (75.0)	36 (100.0)
Low	—	7 (100.0)	7 (100.0)
Total	29 (28.1)	74 (71.9)	103 (100.0)

among the middle and lower classes. Among the middle class people there is one graduate to every 19 households and one matriculate to every 6.3 households. This proportion is still lower among the lower classes, where there is one matriculate to 127 households.

These discrepancies in achievement of educational standards falsify the universal approachability to educational opportunities for the various castes and class groups. Aspects of modernisation, which provide high scores on the prestige-scale, are accessible almost in a monopolistic way to the upper sections of the population. Thus in education, too, we do not find 'distributive justice' which aims to minimise the inequalities between different sections of the population. On the contrary, status inequalities have been increasing on the non-sacred hierarchical lines under these emerging, modernising forces of status and prestige. The higher castes and class people centralise their efforts for achievement of these determinants; and in course of time they conserve and sanctify these attributes or, in other words, they traditionalise them.

Power

A hierarchy of power relations coincides with the caste and class stratification in the six villages. The ex-landlords have a decisive command both over the formal positions as well as the informal decision-making process. They are the key influentials in these villages. In both the villages of Bharatpur sub-region, the Jat ex-landlords hold the key offices of Sarpanch (head of the village panchayat), Chairman of the judicial panchayat, President and the Secretary of the co-operative society, etc. These offices in other villages have been held by the upper castes, such as Brahmins, Charans and Rajputs. In two of the villages, viz, Sabalpura and Bhutera, where the Jats constitute a single overwhelming numerical strength, they have superceded their upper caste rivals. The latter, however, put up a formidable opposition to the Jats in these two villages.

An analysis of 76 influentials reveals that 41 per cent are from among the upper castes, whereas they constitute only 18 per cent of the total households in these villages. Among the intermediate castes, the Jats (who are also ex-Zamindars in Bharatpur district) have occupied these offices of power more than the Jats of the villages of Sikar and Jaipur districts, who are ex-tenant peasants today. The lower castes comprise 32 per cent of the total households, but have taken up only four per cent of the total positions of power since the introduction of panchayati raj on October 2, 1959.

An analysis of class positions reveals a similar trend of association between class and power. Numerically, 77 per cent of families belong to the lower class, but only 9 per cent of the key influentials are from among them. Of the influentials, 46 per cent are from among the middle class groups, which comprise only 15 per cent of the total households. The high influentials share 45 per cent of the total strength of them, but they are only 8 per cent of the total households.

Out of 11 Sarpanches, 9 have come from the upper class and 2 from the middle class. Even the latter two were social workers from the upper castes. All the Sarpanches are from among the Brahmins, Rajputs, Charans and Jats. No Sarpanch has been elected so far from among the other 30 castes in the six villages. The other significant fact is that the rivalries, mutual hatreds and bickerings for status and power are either between the influential and well-to-do families of the same caste or among the marginally higher and lower castes which generally have the same economic position. The rivalries for power in the two villages of Bharatpur so far have been between the ex-Zamindar families of the Jats. This is an intra-class friction, resulting from the structural changes in the village community. In Roopgarh, it is among the Brahmin families. In Sabalpura and Bhutera it is between the Rajputs and the Jats; and in Harmara the Charans,

Brahmins and Banias form the rival groups.

It is evident from the above analysis of the power-structure that there is a positive relationship between caste, class and power ranks. As such, decentralisation of power through panchayati raj has not in fact succeeded; rather it has provided a ground where the privileged sections can centralise and consolidate their positions with new means and in a disguised form. The process of bringing down the status of the ex-landlords through land reforms and, by the same means, upgrading the positions of the ex-tenants, particularly in the Jagirdari villages, cannot be denied. The process of upgrading the status, from lower to higher rank, has been designated as 'bourgeoisification' while the opposite process, of degrading status, is called 'proletarianisation'.²⁴ These processes are of immense significance in understanding the outcome of some of the structural changes such as land reforms, Panchayati Raj and Adult Suffrage, etc; however, they have affected the traditional structure in a very limited way. Their effects are minimised by the privileged sections by 'seeking out' some new bases of power and prestige and by extracting maximum benefits out of these new avenues introduced for achievement of an egalitarian and equalitarian society.

Styles of Life

The families from among the upper castes and class again have superior styles of life compared to the families of the lower and intermediate castes and class. Their styles of life are better in terms of expenditure on clothing, food, house, marriage, education, etc. There are families from these privileged sections, which have spent upto Rs 20,000 on the marriages of the girls in recent years. It is these families which use stainless steel utensils, crockery, carpets, chairs, tables, costly garments and gold ornaments. Other goods, such as, watches and transistor radio sets are also coming into use by them. Some of these elite families in the villages maintain drawing rooms, decorated with photos, carpets, chairs, etc.

It is also these families who are innovators in the villages. In Bharatpur villages six families of the ex-Zamindar Jats own tractors as well as the other items referred to above. Similarly, in four other villages tractors, for example, are owned by the ex-landlords and the bourgeoisified ex-tenants.

Not only are these cultural distinc-

tions clear between the privileged and the non-privileged sections, but they also accentuate and widen the gulf between these polar sections of the village community. This is indeed sometimes why the upper castes conspicuously spend on marriages and other occasions, seeking higher prestige and status. They can afford expenses on these cultural items, as they are in a position to do so because of their changing adaptability to the challenges and situations thrown out by the structural changes. Thus, we find a great gap between the cultural styles of the privileged minority and the non-privileged majority.

Because of these divergences, the lower castes and class people are less informed, have no contacts with leaders other than the leaders of their respective villages, and are almost unaware of the political set-up of the country. They have no clear-cut knowledge about the ideologies and programmes of the political parties. They have only a faint idea about personalities like Mahatma Gandhi, Jawaharlal Nehru and Mohan Lal Sukhadia. Indira Gandhi, being the daughter of the late Nehru and a lady Prime Minister, is known by the people in terms of recognising how times have changed so that a lady rules over them.

The upper sections of the village population are more aware of the present day structure of the country and of their surroundings. The obvious reasons for this are their educational attainments, their white-collar jobs, migration and contacts with the block and district level leaders.

The changing character of styles of life among the elites supports their pragmatic orientation for maintaining the status quo or for raising the present status and prestige to a higher level. The wearing of Khadi and the acceptance of Kucha food, water and tea from the Jats by the Brahmin leaders, are some of the examples of this. Touching an 'untouchable' on the farm when the upper caste men and the former work together is not considered polluting. But on certain occasions acceptance of Kucha food from the Jats and touching 'untouchables' in public is still considered impure. Similarly, carrying out of certain rituals and practices is considered useful as these still provide prestige but certain other rituals have been dropped as they either no longer contribute to status upgrading or negatively affect the status of the practitioners.

An analysis of the status structure of the six villages on the basis of selected

criteria, viz, land-holding, income, house-type, and caste rank, reveals that 'composite status' and caste rank do not differ significantly. The ranking of families on the basis of these four factors (see Table 4) at three kinds of significance (high, medium, low) was worked out. The families were thus classified into four status groups on the basis of their respective total scores on these four factors.

An overwhelming majority (61 per cent) of the upper castes belong to the 'upper composite status' rank. Only 36 per cent of them have 'upper middle status'. No family from the upper castes belongs to the 'lower status' rank. Only three per cent have 'middle status' rank. On the other hand, 70 per cent of the lower castes belong to the 'lower status' rank, whereas only one and six per cent of them belong to the upper and the upper middle status ranks, respectively. The intermediate castes are mainly in the upper and upper middle status ranks. Only eight per cent of them have lower status rank. This shift is an indication of their upward status mobility. The lower castes have not improved significantly, as 86 per cent of them possess lower status rank and only 28 per cent of them have middle status rank whereas 69 per cent of the intermediate castes have middle status rank.

This overwhelming association between caste rank and composite status rank also supports our analysis of the relation between stratification and modernisation on the basis of the indices of occupation, education, power and cultural styles of living. The minor fluctuations in the rural stratification system are not strong enough to challenge its basic foundation at least in the existing circumstances. As such, we cannot expect major overhauling of our stratification system with the existing forces of modernisation. These forces rather help mainly those who are already better-off. In other words, only the well-off sections can exploit and benefit from these emerging avenues of modernisation. On the basis of these observations at various levels we wish to arrive at certain analytical clues in the following concluding section of this paper.

IV

Overall Analysis

Modernisation depends upon two basic characteristics of society, viz, institutionalisation of modern values and adaptability of the society concerned.

These two interrelated attributes are closely associated with the two basic universals of Parsons, that is, of social stratification and cultural legitimation.²⁵ The nature of social stratification (relatively open or relatively closed in practice) may make the growth of the process of modernisation particularistic, narrow and limited to a minority of the members of society. This process may be universalistic in character if there are no hurdles from the side of existing stratification system. The nature of our stratification system is segmental and hierarchical based on certain historical forces. The difficulty is not in changing the values of this system; there is a pervasive and acute lack of means for the non-privileged castes and groups and families to adopt and internalise the modern values. The privileged groups are in a position to adopt these values, and as such they are able to maintain qualitatively the same status distinctions in relation to the non-privileged sections though on the basis of new factors such as education, office, economic position, white-collar jobs, outside contacts and styles of life.

Dube emphasises the need for emergence, which implies 'value-change' for institutional rearrangement considered essential for modernisation. Some of the difficulties pointed out by him include the vast gap between the elite and the masses, sacred and secular, ascription and achievement, self-orientation and collective-orientation and particularistic and universalistic values associated with our social system. These dichotomies of values are a product of the basic values of Hindu social organisation, such as, *Karma*, *Dharma*, *Purusharthas*, *Aparigraha*, etc.²⁶

But we have analysed earlier that value-change does not come as a barrier in the process of modernisation. It is the unequal or differential accessibility to the attributes of modernisation which is the barrier and which is basically due to the particularistic nature of our stratification system. Because of this, institutionalisation and legitimation of modern values are partial, limited and un-universalistic. Myrdal's suggestion that caste is an obstacle in the development of India and egalitarian ideology, cannot be accepted by us.²⁷ The problems before us are not, as suggested by Myrdal, of changing attitudes and institutions, abolition of the caste, or killing of the cows, etc. As Singh suggests, change is necessary in the instrumental or non-categorical values of the society facing modernisation.²⁸ The caste and other religious values constitute a cate-

TABLE 4: COMPOSITE STATUS RANKING OF DIFFERENT CASTES

Caste	Lower (3-4)	Middle (5)	Upper Middle (6-7)	Upper (8-12)	Total
Upper	—	7(3.1) (3.0)	81(36.2) (28.4)	136(60.7) (52.3)	224(100.0) (20.5)
Intermediate	39(7.8) (12.3)	160(31.9) (68.7)	183(36.4) (64.2)	120(23.9) (46.2)	502(100.0) (45.8)
Lower and 'untouchable'	278(75.3) (87.7)	66(17.9) (28.3)	21(5.7) (7.4)	4(1.1) (1.5)	369(100.0) (33.7)
Total	317(28.9) (100.0)	233(21.3) (100.0)	285(26.0) (100.0)	260(23.8) (100.0)	1095(100.0) (100.0)

Note:					
Status score	1 to 12	Lower status scores	3 and 4		
First quartile at	4	Middle status score	5		
Second quartile at	5	Upper middle status scores	6 and 7		
Third quartile at	7	Upper status scores	8 to 12		

gorical part of the value-system of our culture. These categorical values are not hurdles in the way of modernisation. This we witness in the case of the modernising sections of the village community. The privileged castes and class people have adopted instrumental values either to enhance or to maintain their *status quo* in the wake of the emerging structural forces of change. This does not mean that they have discarded what they inherited from the past. The two sets of values go together, without conflicting or weakening each other. The two serve in different contexts, in different ways, and also jointly, but for the same end which is status enhancement or maintaining of it. Those who fail to achieve a balanced on-going coincidence of the two value-sets suffer on the status-hierarchy in the village community. As such, modernisation is an integrative, cohesive, and adjustive process.

The classification of the 'modern, transitional and traditional' does not apply to our context. The 'psychic' element for mobility in the direction of modernisation may be very much there.²⁹ But availability of resources to satisfy that 'psychic' element is a foremost prerequisite for modernisation. The people express their desire to have office, a high standard of living, education for their children, but fail to translate these aspirations into reality. This proves our proposition that differential nature of social groups (in terms of resources) does not allow modernisation to result with 'distributive justice', irrespective of structural differentiation. In other words, the fruits of modernisation are not available for consumption to the rank and file in the present day social set-up.

Another point we wish to refer to in

conclusion is that modernisation of the economy, or discarding of the traditional rituals and practices, will not necessarily result in secularisation of the norms of society. Epstein's comparative study of two South Indian villages proves that irrigation of fields brings economic prosperity and this results in strengthening the traditional system in terms of caste hierarchy, rituals and Jajmani system. The dry village induces multi-nuclear changes such as education, migration, occupational differentiation and weakening of norms of caste and Jajmani systems.³⁰ Similarly Sanskritisation does not touch upon instrumental values and it results generally in horizontal mobility without disturbing the vertical arrangement or structure of caste system. Sanskritisation is basically related to changes in the notions of pollution-purity, untouchability and ritual hierarchy, etc.

Thus, modernisation is an adaptive, integrative and continuous process which does not necessarily oppose or weaken 'tradition'. Every society is an on-going system of tradition and modernity. But modernity is found in certain societies not on a universalistic pattern, in terms of resources and 'distributive justice'. In societies where the nature of modernisation is particularistic, inequitable and discriminatory, it results in strengthening and consolidating the position of the traditionally privileged and elite groups and in weakening the position of the expropriated; it thus increases the gulf between the higher and lower strata. The 'indices of modernisation' — occupation, education, power and cultural styles of life — support the view that modernisation in the village community so far has been confined to the privileged castes and class families. Consequently, modernisation

does not result in 'distributive justice', as the role differentiation is confined within the upper segments of the rural society.

NOTES

- 1 Daniel Lerner, "The Passing of Traditional Society", Illinois, The Free Press, 1958, pp 43-75.
- 2 M N Srinivas, "Social Change in Modern India", Bombay: Allied Publishers, 1966; p 119 for the definition of 'secularisation' and pp 47-48 for the meaning of 'Westernisation'.
- 3 K W Deutsch, 'Social Mobilisation and Political Development', *American Political Science Review*, Volume 55, September 1961, pp 494-495. See also A Etzionie 'Mobilisation as a Macro-Sociological Conception', *The British Journal of Sociology*, Volume XIX, Number 3, September 1968, pp 243-253.
- 4 F X Sutton, 'Analysing Social Systems', "Political Development and Social Change", editors L Frinkle Jason and Richard W Gable, New York: John Wiley and Sons, 1966, p 24.
- 5 David F Apter, 'The Role of Tradition in the Political Modernisation of Ghana and Uganda', "Political Development and Social Change", editors L Frinkle Jason, Richard W Gable, *op cit*; pp 65-81.
- 6 Daniel Lerner, "The Passing of Traditional Society", *op cit*, pp 43-75. Lerner considers 'empathy' as the basic element of modernisation. Empathy is the capacity to see oneself in others' situations. It includes both 'projection' and 'introjection'.
- 7 Irving Louis Horowitz, "Three Worlds of Development — The Theory and Practice of International Stratification", New York, Oxford University Press, 1966; pp 305-309.
- 8 M N Srinivas, "Social Change in Modern India", *op cit*.
- 9 M N Srinivas, *Ibid*, p 119.
- 10 K W Deutsch, *op cit*.
- 11 A R Desai, 'Social Change and Educational Policy', "Papers in the Sociology of Education in India", editors M S Gore, I P Desai and Suma Chitnis, New Delhi: National Council of Educational Research and Training, 1967; pp 91-126. Desai considers two patterns of modernisation (1) on the capitalist pattern, and (2) on the non-capitalist pattern.
- 12 F X Sutton, *op cit*.
- 13 Joseph R Gusfield, "Tradition and Modernity: Misplaced Polarities in the Study of Social Change", *The American Journal of Sociology*, Volume 72, Number 4, January 1967, pp 351-362. Gusfield refers to seven 'fallacies' about tradition and modernity. They are: (1) developing societies have been static, (2) traditional culture is a consistent body of norms and values, (3) traditional society is a homogeneous social structure, (4) modernisation replaces traditional culture, (5) the two cultures (traditional and modern) are always in conflict, (6) modernisation weakens tradition, and (7) the two are exclusive in nature and character.

- 14 Yogendra Singh, 'Historicity of Modernisation', paper presented at the seminar on Tradition and Modernity in India at IIT, New Delhi, February 3-6, 1969. See Singh's 'Caste and Class: Some Aspects of Continuity and Change', *Sociological Bulletin*, Volume XVII, Number 2, September 1968, pp 165-186.
- 15 Joseph R Gusfield, *op cit*.
- 16 Talcott Parsons, 'Evolutionary Universals in Society', *American Sociological Review*, Volume 29, Number 3, June 1964.
- 17 Yogendra Singh, 'Historicity of Modernisation', *op cit*.
- 18 Yogendra Singh, 'Caste and Class: Some Aspects of Continuity and Change', *op cit*.
- 19 The data incorporated in this paper were collected during 1965-66 for a doctoral research programme from three districts of Rajasthan, namely, Sikar, Jaipur and Bharatpur. Two villages from each district were selected, one sub-urban and the other remote. These villages were Murwara and Bawari from Bharatpur, Harmara and Bhutera from Jaipur and Sabalpara and Roopgarh from Sikar district. In this paper we do not propose to analyse the variables, such as sub-region, sub-urban-rural and other such distinctions. Our concern is mainly the analysis of the process of modernisation with relevant citations and examples from all the

villages on the basis of indices of modernisation, such as, occupation, education, power and cultural styles of life, etc. Inter-village and inter-district comparisons are not the central theme of this paper. It is the rural stratification system, its adaptability to the modernising forces, and the resulting trends, that form the core of this paper.

- 20 Yogendra Singh, 'Caste and Class: Some Aspects of Continuity and Change', *op cit*.
- 21 S N Eisenstadt, 'The MacIver Lecture: Social Transformation in Modernisation', *American Sociological Review*, Volume 30, Number 5, October 1965; pp 659-673. See also his 'Modernisation: Protest and Change', NJ, Prentice-Hall, Englewoods Cliffs, 1966.
- 22 K L Sharma, 'Occupational Mobility and Class Structure', *Man in India*, Volume 48, Number 2, April-June 1968; pp 106-144.
- 23 K L Sharma, 'Stresses in Caste Stratification: A Study of Six Villages in Rajasthan', *Economic and Political Weekly*, Volume IV, Number 3, January 1969; pp 217-222.
- 24 K L Sharma, *Ibid*.
- 25 Talcott Parsons, *op cit*.
- 26 S C Dube, 'Modernisation and Its Adaptive Demands on Indian Society', "Papers in the Sociology of Education in India", M S Gore, I P Desai and Suma Chitnis, editors; *op cit*, pp 33-51.
- 27 Gunnar Myrdal, "Asian Drama: An Inquiry into the Poverty of Nations", three volumes, New York: Pantheon 1968. See, for a

- 28 Review of Myrdal's "Asian Drama" T N Madan's 'Caste and Economic Development', *Economic and Political Weekly*, Volume IV, Number 5, February 1, 1969, pp 285-289.
- 29 Yogendra Singh, 'Historicity of Modernisation', *op cit*.
- 29 Daniel Lerner, *op cit*, p 71.
- 30 T Scarlett Epstein, "Economic Development and Social Change in South India", Bombay, Oxford University Press, 1962. See Indra Deva, 'The Course of Social Change: A Hypothesis', *Diogenes*, Number 56, Winter 1966, for the view that social change takes place not always in relation to economic and technological development. The author takes the case of India where socio-cultural changes are ahead of industrial and technological progress. This has not happened in many of the Western countries where the industrial revolution was rather rapid compared to the changes in cultural traditions. Gusfield, *op cit*, states that modernisation has rather strengthened traditional norms in Indian society. He cites the case of Hindu joint family. The examples referred to are of the big industrialists of India who maintain big joint families. The field study of the author in the six villages of Rajasthan also supports the view that the joint family organisation is not weakened by modernisation, in terms of education, migration, white-collar jobs and economic prosperity. The big joint families in the six villages are of the economically well off, upper castes and classes, and educated people.

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Concentration and Economic Equality

Bimal Jalan

While there should be wider diffusion of the benefits of economic development, recent policy measures on industrial licensing and for control of big business are unlikely to meet that commendable objective. This is so because the criteria in the application of those measures are not those of efficiency, nor is the levelling down achieved by them in any way destined to help the 95 per cent or more of the country's population that exist just about at, or below, subsistence level.

[The author alone is responsible for the views expressed in this article.]

THE objective that there should be a wider diffusion of the benefits of economic development would seem to be unexceptionable as a goal of national policy. It is desirable socially, because it is clear that a society where some sections not only enjoy but also increase their advantage over others cannot remain healthy. It is desirable politically because the preservation of the democratic system based on adult suffrage must ultimately rest on its capacity to protect the interests of the majority of the people. It is also desirable economically because it provides incentives to the farmer or the factory hand by giving him an economic stake in the future of the country.

The nation's gratitude must, therefore, go to those who have made the issue of concentration of economic power a matter of public debate and conscience. It is a recent happening, although the vigour and the noise with which we have begun to pursue the objective sometimes makes one forget just how recent it is.

LICENSING AND DEVELOPMENT

While the objective is commendable the highly publicised, policy measures recently taken by Government in the field of industrial licensing and control of big business are unlikely to achieve greater social justice or a more meaningful distribution of wealth. It is also a bit unfortunate that the licensing system should have been made to carry the main blame for the past growth of big houses. The licensing system, whatever its drawbacks in actual practice, was primarily conceived as an instrument for developing industries according to plan priorities. It is therefore, interesting, but quite beside the point, to show that a number of big houses got industrial licences, since it is possible that there was a very good economic reason for this. In order to show that the licensing system was biased in favour of 'bigness', one would have to compare the extent of concentration under licensing with the concentration that would have resulted if there were no licensing. This has not been done.

In the absence of such an analysis,

it is unfair to assume a particular distribution of economic power that we would like to see, and then blame the licensing system for the fact of not having achieved this. This is not a mere debating point. The focus on licensing as a perpetrator of 'bigness' has led to the focus on licensing as the means to achieve a wider diffusion of economic power — to the neglect of other measures that need to be undertaken to achieve this objective.

According to an estimate made by B S Minhas, 95 per cent, or some 490 million, out of India's 515 million people had a per capita consumption in 1967-68 of about Rs 1.50 or less per day. More than half of these, or some 250 million people, lived in what must be described as abject poverty even by Indian standards. Their average per capita consumption per year was less than Rs 240 or less than 66 paise a day.¹

This is a sobering thought. What this means is that in India, after 20 years of planning for the socialist pattern, some 95 per cent or more of the population is still quite poor, and 250 million among them do not have even the bare minimum in terms of food, sanitation or shelter. As against these, there are probably no more than 2 or 3 per cent of India's population, who may be said to enjoy a decent standard of living.

This points to an important fact about the nature of economic inequality in a poor country: The inequality that really matters is between the 95 per cent who have not and the few who have. To this 95 per cent of India's population, it does not matter whether 20 or 75 or even 1000 houses own the majority of industrial assets, since a wider dispersal of ownership is not going to help decrease the inequality between the office-boy and the managing director or the factory hand and the small-scale industrialist.

To put it another way, the question of inequality that is most relevant for us at the present time is the poverty of these 490 million and the abject poverty of the 250 million — not the inequality between a handful of big

houses and the average businessman or the industrialist. The inequality that is unconscionable is not between a person who owns five cars and the person who only owns one, but between the one who owns the car and the one who washes it.

This is the perspective in which measures to promote greater equality or a better distribution of the nation's wealth must be judged — the test must be what is done for the 95 per cent who are poor, and not what is done for the few who are already relatively well off. Judged thus, the recent policy package to promote social justice would seem to be irrelevant to the cause of economic equality.

RECENT MEASURES

The recent measures to curb the growth of big houses and to promote social justice are of two sorts:

(i) Those that call for greater participation by Government and public financial institutions in the management of industries. In this category fall measures such as appointment of government directors to industries in the 'joint sector', appointment of directors by the public finance institutions to the boards of assisted companies, and the conversion of loans into equity by public institutions; and

(ii) Those that prevent the big houses from undertaking expansion or diversification in existing industries or from going into new industries below a particular size, and those that require industries and activities calling for investment below a particular level to be reserved for the small-scale entrepreneur.

It is interesting to examine the effect that these measures will have so far as the 490 million of the poor and the very poor in India are concerned. If all these measures serve their avowed objectives, they would certainly result in a redistribution of wealth between the big industrialist and the small entrepreneur, but will this help the very poor or serve the cause of economic equality?

First, it is important to emphasise that, from an economic point of view,

ownership *per se* of industries or of the 'means of production' by the state is of little significance — except, of course, to the political dogmatist. What is important is not the fact of ownership but the consequence of who benefits from the surpluses or profits arising out of a particular industrial activity. When the industries are owned privately, the profits go into private pockets. When these industries are socially owned, the profits are supposed to go to the state, which can then use them for the benefit of the people at large. In the Indian context, therefore, the crucial question is whether the recent measures calling for greater ownership and participation in management will give rise to greater social profits which can be directed to the poor.

Not even Government will argue that the presence of government or public institution directors, with little or no previous industrial experience, on the Boards of companies will lead to greater efficiency in the management or greater revenue to the state which can be directed to promote economic equality. If this could be truly argued, the public sector enterprises would have been extremely well run and profitable ventures — which they are not.

So what will this measure achieve? If carried out with utmost efficiency and success, the measure might make government control of a particular company more effective by ensuring that the company does not contravene the economic guidelines provided by Government. It would prevent reckless, private decision-making or the growth of the company in a particular direction or beyond a particular point. But it cannot by itself promote economic equality in any meaningful way, because it will not create larger resources in the hands of the state.

Government's policy that, the public finance institutions while granting loans or underwriting debenture issues should seek the option to convert them into equity has been subject to considerable public debate. A number of technical difficulties have been raised about the feasibility of this measure and its effect on the financial structure of private companies and on the capital market. The guidelines for the application of this policy are not available, but assuming that they can be worked out, will this measure promote economic equality?

There is one way in which this could happen. If the finance institutions exercise this right only in companies where the yield on shares is higher than the

interest rate on loans, they would be siphoning off more of private profits. If these were used to finance a higher level of industrial investment, it would generate more employment and so help the unemployed.

There are, however, two factors which cast a shadow over this blissful picture. Existing companies with a comfortable debt/equity ratio and favourable growth prospects are likely to shift to a greater reliance on internal sources of finance (or go directly to the market) rather than provide the finance institution with this enviable option where they would be assured of a fixed return during the gestation period and of a higher return after the company starts making a profit. The search for alternative sources of finance will undoubtedly create a strain, and may in fact slow down industrial growth.

SMALL INDUSTRIES AND GROWTH

The other factor is somewhat more technical and relates to the mechanics of converting loans into equity. It is extremely unlikely that the loans can be converted into shares at par value — some provision would have to be made for conversion at a pre-agreed higher price per share. The conversion at a higher price by the finance institution, will decrease the expected yield on shares. It may also provide the upper limit to which the market price of shares can increase during the specified period and may thus be iniquitous to the original shareholders.

The precise effect of these various factors on the profitability of finance institutions as a result of exercising this option can only be judged after several years. But it is unlikely to be very significant.

To take up the effect of the second group of measures on equality. The popular notion that promotion of small-scale industries is a step towards economic equality is a mistake. A small-scale industry is one which has an investment of less than Rs 7.5 lakhs. Under the new licensing policy, the small-scale sector will be given exclusive preference in selected industries and relative preference in industries calling for investment below Rs 1 crore. It is obvious that a person or a partnership commanding Rs 7.5 lakhs or Rs 1 crore of resources is not 'the economically deprived'. Our representative small-scale entrepreneur is probably already quite well-off and belongs to the select few rather than among the 95 per cent whose per capita consumption happens to be less than Rs 1.50 per

day.

The relevant question with regard to discrimination in favour of small-scale industry or in favour of the small and medium-scale entrepreneur is: at what cost and who will pay for such enterprise? The question of efficiency or costs is conspicuously missing from Government's pronouncement in this respect — which simply lays down that the small sector will be favoured 'wherever production in this sector can be expected to grow'.

The explanation as to why special concessions for, and restrictions on, entry in this sector are required has necessarily to be sought in either (a) the fact that the plants would be of less-than-optimum size or (b) that the small-scale entrepreneur is less efficient or has lesser access to technology than the big companies. In either case, cost of production and prices are likely to be higher or the quality of the goods inferior. Somebody has to pay for inefficiency in resource-use and for inferior quality; and this is either the consumer or the state. Inefficiency does not help the poor man who is more interested in the price and durability of the clothing or the hand tool that he owns, than in who produces it.

This is not to imply that all small-scale production is inefficient or that all large-scale production is efficient. The plea is that entry and licensing of industries in particular sectors should be decided on efficiency considerations rather than on whether the entrepreneur owns Rs 30 crores worth of assets or only Rs 1 crore. Protecting inefficiency will not promote equality or social justice in a country like India — in fact, it is likely to be inimical to it.

The only economic case for protecting the small-scale producer arises when big companies use their monopoly power to prevent the entry of an efficient small producer. This, however, is a subject for monopoly legislation and has to be decided on a case by case basis rather than in terms of a blanket policy pronouncement on licensing.

For public policy in the industrial field, it is important to distinguish between (a) policy designed to curb the monopolistic exercise of economic power by big units in particular lines of activity, and (b) policy designed to promote social justice by redistributing wealth or preventing the growth of wealth in the hands of the few. The former is a matter of economics, and is concerned with the deleterious effects of private monopoly on free entry, price

of product, and scale of output. The latter is a matter of 'equity', and is concerned with the fact of bigness rather than its economic effects. In India, the legislation on monopolies and restrictive practices deals with the former, and the licensing and other policies to curb the concentration of power with the latter aspect.

This distinction is of significance because policies have to be judged in relation to objectives. Viewed in this light, it is the contention of this paper that, the recent policies on licensing and concentration of power do not serve to promote economic equality between the vast majority who are poor and the few who are already well-off. What is the alternative policy that would better attain the objective?

ECONOMIC EFFICIENCY AND JUSTICE

The first principle that needs to be recognised is that, in a poor country, there is no opposition between economic efficiency and social justice for the economically deprived. One can certainly have economic efficiency without justice, but not *vice versa*. There are many examples of countries in different periods in history which have experienced high growth and efficiency in resource-use without justice for the poor, but hardly any of those which have succeeded in achieving social justice without efficiency — be they centrally planned, free enterprise or mixed economies. Whatever the economic system, the only way to serve the interests of the poor is to use the available resources wisely, based on the criterion of productive efficiency, rather than in pursuit of a pre-determined redistribution of industrial wealth among the few. A rupee wasted is a rupee diverted from expenditure that could benefit the poor. It is, therefore, imperative that every project small or big, is justified on grounds of social profitability, rather than on grounds of size or who the entrepreneur is. If the enterprise is in private hands and profits accruing to the private entrepreneur are thought to be excessive, they should be taxed away or transferred to the consumer through reduction in the price of output rather than prevented from arising from inefficient use of resources.

In India, where industry is subject to widespread social control in all phases of its operations, the classic image of the tycoon as the "robber baron" is perhaps no longer true. If unfettered private capitalism still exists, it is certainly not due to lack of social and

economic legislation. In any case, the big are already big and if Government's hope that they should go into 'core' or heavy industries is realised, they are likely to grow bigger. If 'bigness' gives undue power or economic influence to a few houses, it is not going to be eliminated by preventing their entry into the small-scale or the delicensed sector. It, therefore, does not make sense to sacrifice the criterion of industrial efficiency in the licensing policy for the highly dubious concept of 'social justice'.

The second principle which needs to be squarely faced is that it is not the fact of public ownership *per se* that matters to the poor and the economically deprived. It is the distribution of profits arising from ownership that is important. If the state owns industrial enterprises, it gets the profits which may be used to promote the welfare of the people. This in fact is a compelling argument in favour of the public sector. However, for profits to be used for the welfare of the people, an essential pre-condition is that public enterprise should be profitable.

MANAGING PUBLIC ENTERPRISES

The inefficiency and mismanagement of public industrial enterprises and the meagre contribution that they make (in relation to the size of investment) to financing the plan are matters of public record, and have been examined by a number of bodies, including the Administrative Reforms Commission. A policy for improving their performance must rank high in a strategy for decreasing economic inequality. This is much more important than preventing entry of big business into particular sectors. Introducing efficiency into the public sector is not likely to be an easy task given the entrenched interests of the bureaucracy, which now runs it. However, unless this is done, instead of being the powerful instrument that it could be for promotion of economic equality, it will continue to be a drain on the nation's resources. If the public sector cannot be run well, it will be much better to restrict its role in manufacturing activities, and to use fiscal means for mobilising larger resources in the hands of the state.

Finally, in using the resources that are actually available to the state, greater emphasis needs to be put on expenditure which directly benefits the poor. In spite of the lip-service that is customarily paid to the poor and the weak in our Plans, the expenditure on public services, such as health, educa-

tion, sanitation, water supply, social welfare, and welfare of poorer and backward classes, is by no means massive. In the Fourth Plan, it is about 12 per cent of the total planned expenditure and works out at a little less than Rs 7 per capita per year.

RADICAL REDISTRIBUTIVE POLICIES

It may be argued that increased expenditure under these heads would raise consumption, while what is needed for development is more investment. Isn't there a conflict? There need not be, if one looks at the policy option in somewhat more disaggregative terms. As R F Kahn reminded us years ago, the choice in developing countries which have surplus labour (in both open and disguised forms) is not between present and future consumption, but between the present consumption of the different classes.² Increase in consumption of the poor classes does not have to be at the expense of investment; it could well be at the expense of the present and potential consumption of the relatively well-off. If the consumption of the people who already enjoy a certain standard of living could be frozen or allowed to increase at a rate considerably lower than that for the economy as a whole, the consumption of the poorer classes could be increased without affecting the rate of investment. This would call for radical redistributive policies, but such radicalism — to borrow John Lewis's phrase — is likely to be a lot more "relevant" to the cause of economic equality than radicalism with respect to industrial licensing.

In conclusion, it must be emphasised that it has not been the intent of the paper to suggest that various industrial policies announced recently have no merit. For certain purposes and in certain circumstances, each of them could serve a useful purpose. But as blanket policy measures to promote social justice, they rather miss the point.

NOTES

- 1 B S Minhas: "Objectives and Policy Frame of the Fourth Plan: An Appraisal", paper presented to a conference on 'Crisis in Planning' at the University of Sussex, 1969. (A consumption level of Rs 240 per capita was defined as the bare minimum by a working group consisting of D R Gadgil, V K R V Rao, Asoka Mehta and others in 1962.)
- 2 R F Kahn in "Challenge of Development", Hebrew University.

FROM THE CHAIR

The Mettur Chemical and Industrial Corp Ltd

Dr P S Lokanathan's Review

ADDRESSING the Thirty-third Annual General Meeting of The Mettur Chemical and Industrial Corporation Limited at the Registered Office of the Company, at Mettur Dam R S, on Saturday, the 5th September 1970, Dr P S Lokanathan, Chairman, said:

I have pleasure in extending to you a cordial welcome to the 33rd Annual General Meeting of the Company. The Audited accounts for the year ended 31st March 1970 and the Directors' Report have been in your hands for some time and with your permission, I take them as read.

In my speech last year, I had stated that the Company had turned the corner and expressed the hope that during the year 1969/70 the Company would show highly satisfactory results. That hope has been fulfilled to a large extent. The record of production, sales and gross profits has reached an all time high. We passed through undoubtedly difficult times in the years 1966/67 and 1967/68, due to a combination of factors beyond our control. Our expansion programmes naturally took time to yield their full results. But this period synchronised with a period of recession in the economy which led to poor realisations. A number of companies in the country were unable to declare dividends. These included Engineering, chemical and other industries. While the engineering industry was affected more deeply by the recession, chemical industries were also affected. As many as 23 engineering industries could not declare dividends for three continuous years; about 15 for two years, and a large number of companies declared no dividends during the recessionary period. Similarly, in the Chemical Industry also more than 30 units were unable to declare dividends for three years and seven companies for two years, while as many as 13 units were unable to declare dividends for one year. It will thus be noted that the failure to make a reasonable profit and declare a dividend was largely due to general factors which affected our company equally with others. So far as our industry is concerned, while costs went up, sales realisation lagged behind. It was not a decrease in production so much as the disequilibrium between

costs and price that was the major factors.

I am therefore glad that during the year under review, we have made a reasonable profit and have recommended an equity dividend of 10 per cent. In my view, equity shareholders are entitled to a large return. While those who invest money in deposits with reputed industrial companies are able to get an interest ranging from 9 to 11 per cent, equity shareholders who provide the risk capital could certainly expect a higher rate of return. If, nevertheless, the Board after full consideration has recommended a dividend of only 10 per cent, it is because of our anxiety that we should build a strong reserve position which would help us in the future. Our policy should be one of stable dividends and we hope you will appreciate our decision to set aside as much as Rs 26.55 lakhs for various reserves.

ROLE OF PROFITS

Speaking of profits and dividends, it is unfortunate that in our country, the role of profits has been misunderstood even in responsible quarters. Profit is not something to be shunned or regarded as unsocial. Indeed, it is both the result and a measure of performance. Any company that fails to earn a profit must be regarded as not having fully utilised the resources available to it both human and material. In a sense, it may be regarded as wasting national resources. Profits are also essential from the point of view of the Company's normal expansion programmes. They also provide the resources for government to mobilise finances for its various requirements. Far from profits being regarded as unsocial, it is the failure to make profits that should be condemned as unsocial. I can only hope that the true role of profits as an indicator of efficient performance and as a resource for the country's development needs will be fully recognised.

The business community heaved a sigh of relief last March when the Budget proposals did not add up further burdens on the Corporate Sector. But the expectation that investment would increase substantially has been belied,

on account of certain inhibitory policies pursued by Government. The rate of capital formation has not increased during the year. There has been a decline in the capital raised by companies showing that difficulties still persist in raising substantial capital from the market. Part of the reason for the failure of investment to match up to the requirements of the desired growth rate of 9 per cent in industrial production is the new licensing policy adopted by Government and the uncertainties connected with the implementation of the Monopolies and Restrictive Trade Practices Act. Hardly anyone can be in favour of monopoly as such. But in a developing economy with only latent markets, establishment of a viable sized, sophisticated new industry would appear to be monopolistic only in the initial years. It will take some time, with developing markets, for more units to be established. Therefore, the enforcement of the Act has to be handled with imagination and only after careful enquiry. As a corollary, while it is socially desirable to spread entrepreneurship widely, there should be greater flexibility in permitting larger industrial houses to establish medium sized industries. While it is gratifying that Government have allowed such participation in export-oriented units, similar flexibility in industries not necessarily export-oriented should be permitted, as otherwise the financial resources, know-how and techniques available to the larger houses would all be wasted.

With the termination of the Managing Agency system on the 1st April this year, Seshasayee Brothers have ceased to be the Managing Agents of your Company. It is only right that I should take this occasion, on your behalf and on behalf of the Board, to pay a tribute to the invaluable services rendered by the Managing Agents during their term of office. Taking only the recent past, the progress achieved by your Company under the efficient and energetic management of Seshasayee Brothers is indeed striking, as will be seen from the following: In the decade 1959/60 to 1969/70, production of chemicals has gone up from 19,817 tons to 99,738 tonnes, and Gross fixed

Assets from Rs 76.80 lakhs to Rs 512.60 lakhs. Sales have risen from Rs 117.32 lakhs to Rs 701.01 lakhs, and Gross profits from Rs 26.06 lakhs to Rs 120.92 lakhs.

NEW RESPONSIBILITIES

During much of this period Mr R V Ramani represented Seshasayee Brothers as Director of the Managing Agency Company in charge of our operations. I am happy that Mr Ramani's rich experience and conspicuous ability will be available to us in his new capacity as Managing Director. With the abolition of the Managing agency system and with a new dimension being given to the social responsibility of the business community, new challenges have to be faced by industry. Your Directors are fully alive to these new responsibilities. Your Board would, in large measure, be following the guiding principles so ably set by the late Mr V Seshasayee, who, in all his activities, was motivated by a sense of public welfare. I would like to take this opportunity to define in clear terms the objectives of our company. While fulfilling the basic objective of operating the Company profitably and declaring dividends for shareholders, we shall also keep in mind the necessity to utilise the plant capacity and resources to the fullest possible extent, producing quality goods for the consumer at a fair price. Similarly, our manpower resources have to be effectively utilised and the welfare and living conditions of our employees have to be constantly improved. Just as the employees have a stake in the prosperity of the Company, so does the Company have a stake in the welfare of its employees. The talents of our young technicians who have already demonstrated rich potential for Research have to be developed. At the same time, our social objectives in the welfare of the community have to be promoted to the fullest extent.

I shall now come to certain specific problems affecting our industry. We have been experiencing great difficulty in procuring adequate supplies of steel sheets for packing chemicals. Indigenous production is inadequate and imports are restricted. The international steel shortage has made even the restricted imports difficult. Besides, imports of certain types such as galvanised sheets are banned and indigenous production is not up to the requisite quality standards. Similarly, in the matter of graphite electrodes, domestic supplies have been difficult and expensive.

On the already high cost of packing material, the imposition of a separate Excise Duty on containers, and a further Excise Duty on the packed material, including the cost of packing, has worked a severe hardship. It is obviously inequitable to tax the container once and levy a tax on it again after filling the material. In other fields also, import substitution has tended to push up costs.

Import substitution and export promotion have been the twin props of our economic policy. In the early years of development, import substitution naturally had importance. But with the passage of time, the limitations and costliness of import substitution should have been recognised. Until domestic production gets set up and produces quality material at reasonable price, there should be greater flexibility in allowing imports. This is indicated on other grounds also. As I pointed out in my evidence before the Monopolies Inquiry Commission, some imports have to be freely allowed with a view to compelling domestic manufacturers to bring down their costs and improve quality. Such imports would give a stimulus to domestic economy. In any event, Industrial production would suffer if a more liberal import policy is not adopted. While an Industrial Raw Material Bank has been envisaged under the Foreign Trade Policy resolution, it still remains to be seen whether this would tangibly help export-oriented units. Similarly, canalising of imports through the State Trading Corporation of India and Minerals and Metal Trading Corporation have in many instances resulted in high prices being charged for industrial raw materials. While no doubt these bodies can avail of a reasonable margin of profit, the main objective of state trading and canalised import to bring down prices should not be lost sight of.

As regards our vanaspati operations, the decision of the Government to de-link vanaspati prices from oil prices and to review vanaspati prices less frequently led to a production crisis in the industry. With groundnut oil prices fluctuating widely, the industry would not be in a position to maintain production for long if the vanaspati prices were not revised at least fortnightly in order to neutralise the variations in oil costs. The real solution lies in controlling indigenous oil prices by sufficiently large imports of soyabean and other oils.

Despite these deterrent factors, our Company has been keeping up its per-

formance, and in the five months since the end of the financial year, production and sales have been maintained at satisfactory levels.

EXPANSION PROGRAMME

I would now like to revert to some important general factors affecting the future growth of industrial production in the country, particularly in the light of Government's licensing policy. On account of the obsession with monopolies, there is general reluctance to allow industries to expand and diversify. This, in my opinion, is a great mistake. No productive unit can afford to be static. Unless it expands its capacity continuously and diversifies its range of products, it loses its competitive capacity and its capacity to survive. While, of course, business cannot expand indefinitely, nor at too fast a rate, it is very necessary that the process of normal growth should be encouraged. In our own case, I am happy to say that the Government have approved our programme of expansion of caustic soda capacity of 20 tonnes per day and the foreign exchange requirement has also been arranged.

Apart from the general discouragement for expansion, the proposal for financial institutions to convert loans into equity capital is another disquieting feature. As you are aware, many large and medium sized industries have had to borrow in Rupees as well as in foreign exchange from financial institutions out of necessity. In many cases financial institutions like the Life Insurance Corporation of India and Unit Trust of India hold substantial share holdings in companies. While up to a point this is welcome in as much as it increases the sense of public responsibility on the part of the management, the proposal to convert loans into share holdings cannot be regarded as healthy. It would place undue responsibility on the financial institutions which obviously would not have adequate personnel to shoulder the burden; and what is more important, it will unnecessarily diffuse the responsibility of the Managements in the private sector, with the result that private companies would lose flexibility and take on more the characteristics of the public sector. I therefore sincerely hope that Government will desist from implementing the proposal.

Expansion of the public sector has been a major objective for the country. But so long as we are also wedded to the concept of mixed economy, more and more burdens and controls should

not be imposed on the private sector. Within the framework of our social objectives, it must be appreciated that the essence of private enterprise is greater freedom and flexibility. Even the expansion of the public sector should be on a more practical and pragmatic basis with a view to utilising resources — financial and human — for the maximum benefit of the community. Every unit, whether in the public or private sector, must be conscious of this responsibility. In fact, if this concept were firmly adopted, the differences would tend to be marginal. Good private sector firms are able to make better profits, afford better wages and

provide finances to Government through taxation. Hence for a long time to come, the mixed economy of organisation, which the country has accepted, is the best for the rapid development of our economy.

In my speech last year, I referred to the far reaching recommendations of the National Labour Commission. It is gratifying to note that the Standing Labour Committee constituted by the Government has accepted with some modifications the major recommendations of the National Labour Commission. I hope these recommendations will be implemented by the Government and by the parties concerned in

such a manner as to pave the way to smoother and happier industrial relations.

Finally, I wish to place on record our sincere appreciation of the efficient and valuable services rendered by all ranks of employees. I am also grateful to my colleagues on the Board for their counsel and advice in steering the affairs of the Company. I should also like finally to take this opportunity to convey my sincere thanks on behalf of the Board to the Shareholders for their continued interest, confidence and co-operation.

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

The Tata Power Company Limited

Statement of the Chairman, Mr Naval H Tata

THE following is the text of the Statement of Mr Naval H Tata, Chairman of the Tata Power Company Limited, for the year 1969-70. The Annual General Meeting of the Company will be held on Tuesday, September 29, 1970, at 4.00 p.m. at the Tata Auditorium, Bombay House.

TO THE MEMBERS

I have great pleasure in welcoming you to the 51st Annual General Meeting of the Tata Power Company Limited.

The operations and financial working of the three Companies have been satisfactory. The Companies' generation of electricity, revenue and sales have been better during the year and distributable profits have increased from Rs 207 lakhs to Rs 229 lakhs. Your directors have recommended a total distribution of 12 per cent on equity shares for the year.

HIGHER PRECIPITATION

The precipitation in our lakes in 1969 was higher than in 1968, and as a result on 1st October 1969 the lakes were 85 per cent full as against 64 per cent on the same date in 1968. The energy reserve position in the Tata-Railway-Koyna system, however, remained critical.

Members would be glad to learn that consequent on the modernisation and rehabilitation of the thermal station at Trombay, the generation at that station during 1969-70 was maintained at a very high level of plant capability and a record energy output of 2000 MU

for the year was achieved.

The initial difficulties on the inter-connections between Gujarat and Maharashtra Power Systems were to a large extent overcome. It is hoped that similar inter-connections will be established soon with the neighbouring States of Madhya Pradesh and Mysore.

I am glad to say that the modern Load Despatch Centre at Trombay played a very important role, in monitoring and guiding the integrated operation of the enlarged Western India Power Grid. Members would recall that I had indicated to them last year that adequate generating capacity reserves and the integrated operation of regional grids could alone guard us against local deficits occurring periodically due to generating plant outages or vagaries of the monsoon.

DIGITAL COMPUTER EQUIPMENT

The digital computer equipment ordered for the Load Despatch Centre at Trombay has been received, installed and commissioned. It has been operating successfully since May 1970. The on-line direct digital control system has been automatically controlling the generating units at Trombay, the system frequency and power purchases. The automatic controls are also being extended to the hydro stations. The initial operation of the digital control equipment has justified our expectations of achieving improved reliability and economy in operation, and already there is better stabilisation of the frequency of the power system.

The Companies' engineers played an

important role in the design, installation, testing and commissioning of the digital and communication system, with only a minimum amount of help from foreign experts, who were in India for a period of less than three months. Since May 1970, the computer control system has been functioning satisfactorily under the supervision of your Companies' engineers. The expertise and experience gained by them will, I am sure, be availed of by other power utilities in establishing their load despatch facilities within their areas.

Your Companies have a phased programme for extension of modernisation to other areas of power system operation. With the successful completion of the first step of using a digital load despatch automatic control, the Companies are now evolving plans for better controls of hydro and thermal stations. Further, your engineers are exploring the possibilities of developing indigenous equipment for extending the monitoring and control system to the areas of power system operation, with the object of developing maximum Indian expertise at minimum cost.

SEMINAR

The seminar on 'Load Despatch and application of Computer Techniques for Power System Problems' under the auspices of ECAFE, to which I had referred last year, was organised by your Companies successfully from 19th February, to 22nd March, 1970. Fifteen representatives from various countries of the ECAFE region, besides representatives of utilities and the Govern-

ment, attended. Inaugurating the seminar, Dr K L Rao, Minister for Irrigation and Power, Government of India, emphasised the need for employing modern techniques for obtaining fuller and more optimum utilisation of national resources in the larger interest of the country. Mr V R Raghavan, representative of the United Nations and in-charge of ECAFE operations, appreciated the efforts made by the Companies and the interest shown by them in organising the seminar.

Members may wish to know the energy supply position for the current as well as for the next two or three years. On the basis of presently available generating capacities, the energy deficit for 1970-71 for the Maharashtra Power System is estimated to be about 4 per cent or around 200 million units. It is expected that this small deficit can be covered by energy assistance from the two 140 MW units of the Nasik Thermal Station of the State Electricity Board, which is now in an advanced stage of construction. With the availability of power from Nasik, energy position is expected to be satisfactory till 1972-73. The power position thereafter will depend on the availability of power from MSEB's proposed Koradi Thermal Station near Nagpur and the installation of adequate transmission facilities to the Western Maharashtra System.

NEW VENTURE

Towards the end of the Companies' financial year, a new company by name Chemical Terminal Trombay Ltd was formed, with the object of installation of storage tanks on a part of the Companies' ash disposal area at Trombay and the laying of a pipeline connecting the storage tanks with the Bombay Port Trust pier at Pir Pau. The tanks would be used for storing liquid chemicals and petroleum products in the course of import into and export out of India. This new venture has been undertaken in collaboration with Elephanta India Private Ltd, a company representing exporters and shippers of chemicals abroad. The Tata participation in the capital of the new company is 51 per cent (including 30 per cent by your Companies) and that on behalf of Elephanta India is 49 per cent. Work on the project has started and is expected to be completed early next year. By undertaking this joint venture, the Companies have put to profitable use a plot of marshy land which they have themselves reclaimed by

dumping the ash from the Trombay Generating Station.

Tata Consulting Engineers' operations during the year were satisfactory although the expected target of business was not reached. This was primarily due to delay in the finalisation of some of the major projects by the authorities concerned and competition in the consulting engineering field. While the firm has taken steps to diversify and look for assignments in the chemical and allied fields, it has been able to secure one or two major assignments in the power field as well. The firm has also secured an assignment for providing services in connection with the export of a boiler plant which Heavy Electricals, Tiruchi are undertaking, and has currently under discussion proposals for providing construction management services for two major power plants in the Middle East.

The firm is also exploring possibilities of undertaking assignments abroad, and with that intent has taken steps to establish contacts in the developing countries.

The operational and commercial relations between the Companies and the Maharashtra State Electricity Board were cordial and mutually co-operative.

The relations between the management and the staff were cordial throughout the year. On behalf of the members and the Board, I should like to express my appreciation of the commendable performance of the Companies' organisation as a whole during the year under review, which is reflected in the satisfactory results of the Companies' working.

N H TATA
Chairman

Bombay, 18th August, 1970

Atlas Copco Aquadrills

UNICEF's Water Supply section took delivery this week from Atlas Copco India of two Atlas Copco Aquadrills which form part of UNICEF's multi-million dollar programme to bring safe drinking water to 12,000 villages in hard-rock water-scarcity areas. This programme is the largest of its kind ever mounted in India and the biggest UNICEF-assisted water supply operation in the world.

The multi-million dollar programme of UNICEF has been launched by the Government of India, and over the four years, 1970-74, UNICEF support to this programme is expected to amount to about Rs 4.5 crores, and the related Central and State expenditures are estimated at about Rs nine crores. The major UNICEF contribution will be in the form of 85 high-speed air-hammer drilling rigs of British, Swedish and American manufacture, as well as associated vehicles and ground water surveying equipment for use in eleven hard-rock States of central and peninsular India. These will be in addition to eleven rigs supplied under previous UNICEF-assisted programmes which have been operating in Bihar and Andhra Pradesh for several years. Another 14 were ordered last year of which one each of the two new types of Atlas Copco rigs have been used for the present initial training course. The scheme has been worked out in close consultation with the Central Public Health Engineering Organisation of the Ministry of Health and with WHO.

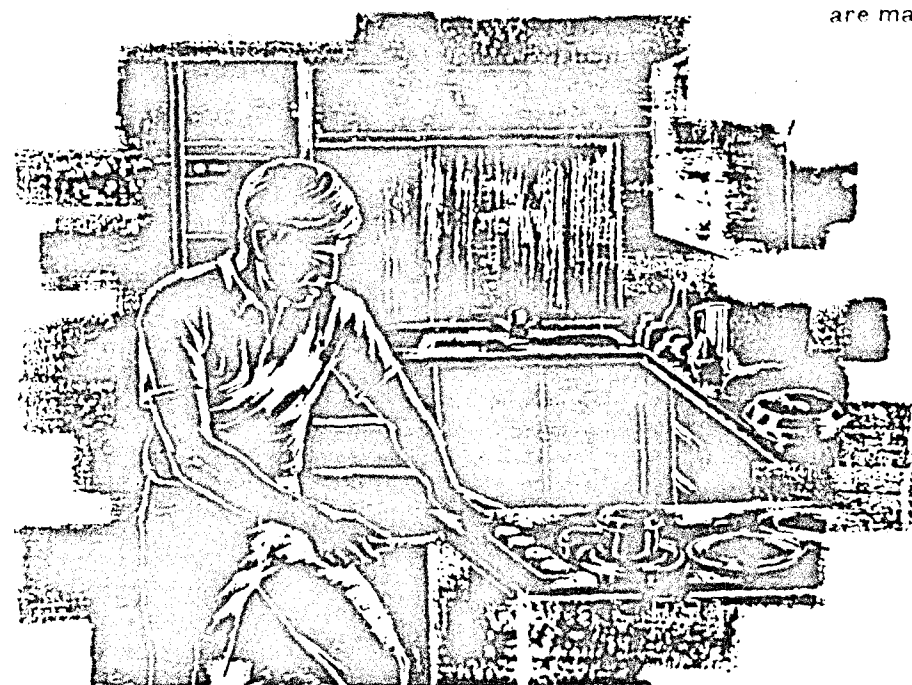
A great deal has already been done to improve village water supplies. Thousands of deep irrigation tube-wells and tens of thousands of shallow ones have been sunk by State and Central engineering departments as well as private contractors. There are also some five million tediously hand-dug wells, often used for domestic water as well as irrigation. But much more still remains to be done to meet this basic need of the people.

The dominant problem today is to provide drinking water supplies in the hard-rock areas which account for about 70 per cent of India's surface: chiefly, the peninsular rock shield south of the Indo-Gangetic alluvial plain. Good water can usually be found in these areas at 150 feet, though in a few cases it is necessary to drill as deep as 500 feet for a reliable supply. Open wells are never deep enough to reach a perennial water supply, and conventional hard-rock drilling methods are rather slow — one to ten feet per day.

Hard-rock water supply schemes which are planned for 1970-74 will cover 12,000 villages with a population of more than nine million. The UNICEF programme should meet about 10 per cent of the village drinking water requirements in the hard-rock areas of the States concerned. In order to meet even the most elementary needs of all the villages in these areas, at least 500 rigs would be needed over a four year period.

When Harry Crowell of Chicago fixes a shelf he does it with the help of GKW

...although he doesn't know it.
The woodscrews that fix his shelf
are made by GKW.



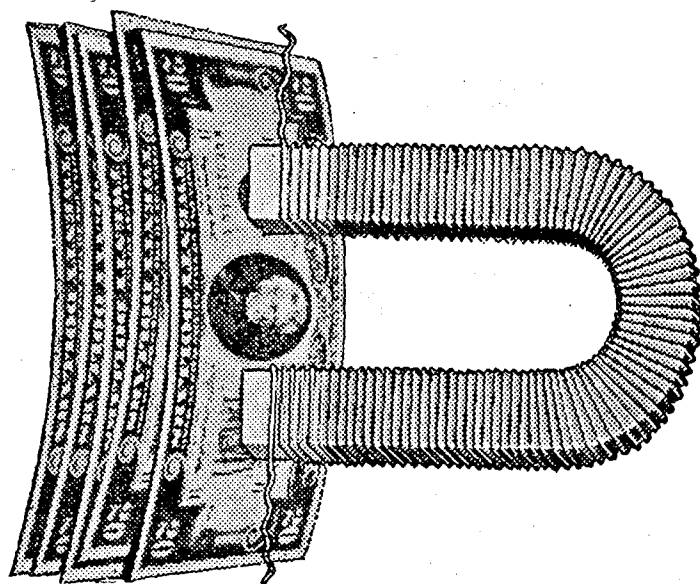
We earn a sizeable amount of foreign exchange through export of non-traditional products. Woodscrews to north America, bolts, nuts and rivets and bright steel bars to Europe, Africa and many countries in Asia. We have earned applause in Australia by exporting sophisticated press tools. We are winning friends and influencing customers in many parts of the world.

Our export effort is not a spare time occupation. We have established G.K.W. (Overseas Trading) Ltd. to work exclusively for export promotion. A specialist organisation, it provides overseas marketing services not only to our own operating divisions but also to other Indian manufacturers who seek facilities to export. And every million dollars we earn abroad makes the nation a little richer in the cold reckoning of the balance of payment.

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**ECONOMIC
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WEEKLY

A Sameeksha Trust Publication

Rs 1.25 Vol V No 39 September 26, 1970

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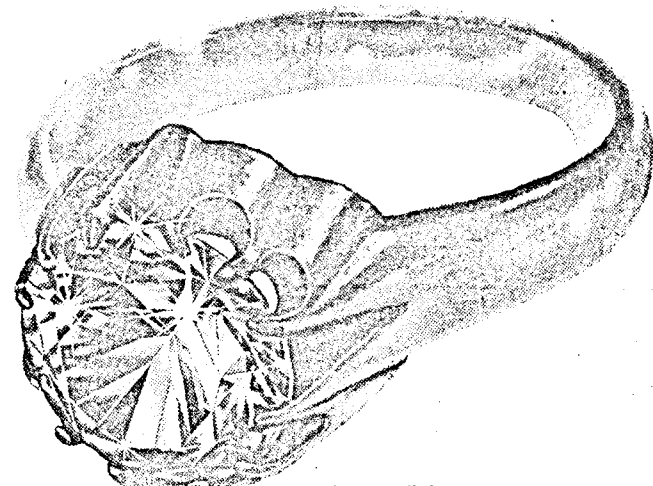
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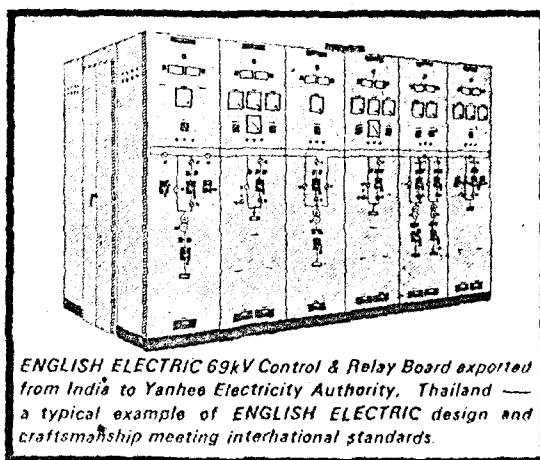
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WEEKLY

Founder-Editor: Sachin Chaudhuri

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ECONOMIC AND POLITICAL WEEKLY

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Opening to the Centre

NOW that Congress(R) has agreed to stand aside, a United Front government may be sworn in in Kerala before the end of the month. The parties comprising it will have 37 members in the 133-member State Assembly and, even taking for granted Congress(R) support, the government will have the backing of 67 members — or just 2 more than the minimum necessary for a majority. CPI's claim to head the government is, to say the least, tenuous. The party polled less than 10 per cent of the votes in the recent election and won just 16 seats. Indeed, at one time it seemed that Congress(R), flushed with unexpected success, might throw a spanner in the works. One section in the party was clearly in favour of participating in the government, which would presumably have meant also supplying the Chief Minister. CPI was, however, saved by fortuitous circumstances. First, the national leadership of Congress(R) in the end decided, because of fear of possible repercussions in the north, against the party joining a government which would include the Muslim League. Second, RSP, one of the parties in the United Front, was unwilling to be part of or even support a government which included Congress; and without RSP's support, the strength of the Congress-United Front combination would have been reduced to 63, or 4 short of a majority.

Such, then, are the considerations which have enabled CPI to form the government in Kerala. In this context it is interesting to recall Achutha Menon's claim, when he secured the dissolution of the last Assembly, that he wanted fresh elections so as to strengthen his majority in the legislature. As things have turned out, the government he is about to form will be entirely dependent on the support of Congress(R). A close parallel to this is the arrangement made after the 1960 elections in the State, when Congress, which had won 63 seats, conceded the Chief Ministership to PSP even though the latter had only 20 seats. This spirit of self-abnegation did not, however, survive long in Congress — nor did the PSP Chief Minister who was persuaded, behind his party's back, to exchange his Chief Ministership for the Governorship of Punjab. Whether similar good fortune awaits Achutha Menon, one cannot say.

CPI has understandably tried to make light of its dependence on Congress(R) by claiming that Congress(R) in Kerala is now a Leftist, radical party. It is true that some of the present leaders of the party and many of its newly-elected MLAs are young and have come to the fore relatively recently; the old guard has been largely discarded. But it is also a fact that many of these new leaders had cut their political teeth in the violent anti-communist agitation which had toppled the first communist government in the State formed after the 1957 election. It is these people who, CPI now hopes, will help shore up its sagging fortunes. Expectations of reform are not, however, confined to CPI. For its part, Congress(R) is said to be hoping, if newspaper reports are correct, that under its tutelage CPI (in Kerala at least, if not all over the country) will cut loose of Soviet Union's apron-strings. Will Dange oblige?

But while it may hope to eventually 'nationalise' CPI, Congress(R) is keeping its options open in Kerala. It has turned down the offer of Speakership of the Assembly and has also declined to join the co-ordination committee of the United Front. Clearly, it does not want to be too closely identified with the Achutha Menon government. An obvious line for it to pursue would be to seek closer understanding with Kerala Congress, now that the latter has no illusions left of drawing any strength from Congress(O). In the recent election Congress(R) and Kerala Congress fought each other in a number of constituencies and both suffered as a result. But even at their present strength, the two parties together, with 46 seats, are a more formidable combination than the United Fronts led by CPI and CPI(M). Muslim League has already started thinking aloud about the prospects of a combination of 'democratic' parties consisting mainly of Congress(R), Kerala Congress and itself. This is a perfectly plausible line of approach once Congress(R) decides that it can take the risk of associating openly with the League. Here Indira Gandhi's statement that, in Kerala, Muslim League is not a communal organisation may be a straw in the wind. Of course, in the present Assembly even the three parties together will not have an absolute majority, but then obviously Congress(R) is looking beyond this Assembly. The recent election results were good, but not good enough. The party must look forward to consolidating its gains in the next election, the timing of which will be entirely within its power to decide — given its crucial

position in the Assembly and given a sympathetic Central Government. As Congress(R) works out this strategy, CPI's role in Kerala will be automatically reduced to that of a minor party, without there having to be any formal break between it and Congress(R).

Congress(R) can hope to repeat its Kerala strategy in detail only in West Bengal where, a Congress(R)-Bangla Congress combination with CPI and other sundry Leftist parties in tow may be expected to beat down CPI(M) in the next election. But the general impact of its unexpected success in Kerala is likely to be more widespread. First, Kerala has confirmed that the Prime Minister's personal mass popularity is a major electoral asset for Congress(R). Second, it has been proved that the Prime Minister's approach of seeking to revive the vaguely left-of-centre national consensus, which Congress under Nehru had represented, can work. Third, it has been established that even where it relies on CPI support, Congress(R) need not go under communist influence or have to play second fiddle to the communists. This should reassure a lot of people who, now that Congress(O) seems to be fading out, will for that reason find it easier to turn to Congress(R). Finally, the election in Kerala has brought out once again that over large parts of the country Congress(O) has simply ceased to be a force and that Congress(R) has appropriated the entire support base of undivided Congress.

CPI(M) has sought to play down the setback it has suffered in Kerala by pointing to the fact that it polled more votes than even in 1967 and that its share of the vote was higher than that of any other party, including Congress(R). At the same time, it has seen, quite correctly, that political developments in the State are leading towards a direct confrontation between it and Congress(R). But with less than one-quarter of the electorate behind it, with its political thinking apparently incapable of extending beyond alliance-making at election-time and with few younger leaders emerging to take the place of the big names of yesteryear, how well placed is CPI(M) to face this confrontation?

Not by Growth Alone

THIS year's annual meeting of the World Bank and the IMF at Copenhagen will be remembered for the broad

sweep of Robert McNamara's address to the Board of Governors of the World Bank. One of McNamara's major themes was that "growth is a necessary but not a sufficient cause of modernisation". The developing countries must achieve a 6 per cent growth rate and they must deploy the resources necessary for this. But they must do more. They must ensure that in such critical fields population planning, rural renewal, fuller employment and decent urbanism, positive policies support and hasten the social transformation without which economic growth itself is obstructed and its results impaired.

The one area that has been McNamara's constant concern ever since he took over as President of the World Bank is, of course, that of population control. It is no surprise, therefore, to find that he devotes more than a quarter of his address to this subject. He sets the developing countries' population problem firmly in its political, economic and social context. He refers with some satisfaction to the increasing consciousness among governments and international agencies about the problem and the action being taken by them; 22 countries now have official population programmes against only three in 1960. With a technocrat's attitude to solving problems, he recommends greater research in basic reproductive biology — backing up the suggestion by throwing in the characteristic bit of information that he knows of "only seven locations in the world in which as many as five full-time researchers are working in this field".

Population control to McNamara is only one part of a modernisation programme for developing countries. He examines the other social and economic aspects of under-development: high illiteracy, excessive urban concentration, "severely skewed" distribution of income and wealth and the gap in international standards of living. Industrialisation by itself will solve none of these problems; on the other hand, some of these factors inhibit the development effort so that their removal is a pre-condition to its success.

It is in this context that the World Bank's operations under McNamara need to be viewed. Apart from expanding the amount of financing, the Bank has broadened, both geographically and category-wise, the range of its operations. In each of the two years ending June 1970, the Bank financed operations in 60 countries, which is, accord-

ing to McNamara, 75 per cent more than the average number financed per year during the period 1964-68. Fourteen of these countries had not been financed at all in the 1964-68 period. Similarly, the Bank's operations now cover agriculture, education, population planning, besides normal infrastructure and industry financing — "we have made a start at broadening the concept of development beyond the simple limits of economic growth".

McNamara is also gradually changing the eligibility criteria for the Bank group's financing. He does not accept the Pearson Commission's distinction between IDA and Bank financing and its recommendation that low earning projects should be restricted to IDA. He argues that any project with a developmental impact should be eligible for Bank financing. Towards this end, IFC's policies are already being "oriented to give greater emphasis on the development implications of its investments".

On the aggregate volume of developmental aid, McNamara does not emphasise the 1 per cent GNP target of the Pearson Commission as much as its 70 per cent component to be provided as official aid. The one per cent target is not, he says, an aid target at all in the strict sense since it comprises the total flow of financial resources from the richer to the poorer nations and does not distinguish between conventional commercial transactions and development-oriented aid. As against the target of 0.7 per cent, official development aid of the member countries of the DAC in 1969 amounted to only 0.38 per cent of their combined GNP. Here McNamara does not hesitate to upbraid the United States whose ratio of development aid to GNP came to only 0.3 per cent and who, in this respect, ranked as low as eleventh among the 16 DAC countries.

The Battle for UP

THE Prime Minister's efforts to wrest political control of her home State, UP, have gone a step further with her party's withdrawal from the coalition with BKD. The Prime Minister, it is well known, is anxious to get things firmly under control in the largest State in the country before the next general election. Indeed, had she been able to do this earlier she might have well decided to go to the polls before 1972.

The BKD-Congress(R) Government, installed after the toppling of C B Gupta, was a part of the operation.

But once it became clear that there was no prospect of BKD merging with Congress(R), the coalition ceased to serve the Prime Minister's purpose. But, unlike Kamalapati Tripathi and other State Congress(R) leaders, the Prime Minister was for some time opposed to a precipitate withdrawal of Congress support to Charan Singh. For one thing, she was not sure that an alternative arrangement, more favourable to her purposes, could be immediately devised; for another, a section of the Central Congress leadership, not too favourably disposed to Kamalapati Tripathi, was against disturbing the Charan Singh Government just now. What finally helped Tripathi to have his way was BKD's opposition to the Bill to abolish privy purses. But for the votes cast against it by BKD members, the Bill would have got through Rajya Sabha. The UP Congress leaders exploited the Prime Minister's ire over this to get her to agree to the party's withdrawal from the coalition.

Tripathi has now claimed that Congress(R) is capable of forming a new Government. This is, to say the least, a wild claim. Except for CPI, which has once more dutifully lined up behind the PM, no other party in the State has extended support to Congress(R). It cannot, therefore, hope to muster a majority in the Assembly unless there are very large defections from other parties, particularly BKD and Congress(O). And even if a government is formed with the help of defectors, it will not be worth a day's purchase since as it is Tripathi's hold over his faction-ridden party is tenuous and this situation will become worse when defectors are admitted into the party helter and skelter in the bid to secure a numerical majority in the Assembly.

The PM, realist that she is, is aware of this. Her strategy seems to be to create conditions which would give the Centre some excuse to impose President's rule in the State, without dissolving the Assembly. In this connection, it is significant that the Governor has not yet accepted Charan Singh's advice that the 13 Congress ministers, whom he had earlier asked to resign, be dismissed and has instead referred the matter to the State Advocate-General for opinion. It is a measure of the importance that she attaches to developments in the State that the PM summoned the Advocate-General to meet her in Lucknow just before she

returned to Delhi after cutting short her tour of the State.

Interestingly enough, the threat of President's rule has enabled Charan Singh to partially retrieve what had appeared to be a hopeless situation. Congress(O) and Jan Sangh had earlier taken the position that in the event of Congress(R) withdrawing from the Ministry, they would wait till the Government was defeated in the Assembly before making their moves. This, these parties had thought, would reduce Charan Singh's bargaining strength so that any coalition that may be subsequently formed by them with BKD would be largely on their terms. However, with the threat of President's rule hanging over their heads, these parties have now realised that they have willy-nilly to come to Charan Singh's rescue. They have already petitioned the Governor supporting Charan Singh's demand for dismissal of the 13 Congress ministers and the indications are that when the Assembly meets early next month, they might support the Chief Minister and prevent the defeat of the Government. This is, of course, assuming that President's rule is not imposed before the Assembly meets.

From a long-term point of view, however, UP politics has merely reverted to a fluid state. Congress(R) is once again left without any allies, having fallen out with the only party of any substance with which it could have forged an alliance. On the other hand, even if a BKD-Jan Sangh-Congress(O) coalition is formed, it is unlikely to prove any more stable than the one that has just crumbled. Though there is a group in BKD which is favourably inclined towards Jan Sangh, the basic antagonism between the two parties runs deep. Charan Singh's success in projecting BKD's image as a party of middle peasants and the lower castes and the party's spectacular performance in the last election were largely at the expense of Jan Sangh and BKD remains a serious obstacle to the Sangh's political ambitions in UP. As for Charan Singh, the cohesion of his party and his own hold over it have depended to a great extent on his ability to satisfy the aspirations of the class of middle peasants and the lower castes whom the party represents. Should he now lose political power, the consequences for loyalties within the party, already under considerable stress, might well prove disastrous. But the major beneficiary of such a development may well be Jan Sangh, not Congress(R).

Restricted Patents and Drug Industry

A Gupta writes:

THE Patents Bill passed by Parliament in its last session will most of all affect the drugs and pharmaceuticals industry. Six major clauses of the Bill call for particular attention in this context.

(a) The new law specifies that in foods and drugs patents will be granted in future only in respect of the process of manufacture and not in respect of the substance of manufacture. Till now both process and product patents were allowed.

(b) The period of patent protection for foods and drugs has been reduced to seven years from 16 years. For other commodities it is kept at 14 years.

(c) Agricultural chemicals like insecticides, germicides and weedicides have been brought within the category of medicines and drugs.

(d) Government is empowered to import or to make use of the patent for any drug or medicine so long as this is done only for its use or for distribution in government hospitals or dispensaries.

(e) Every patent granted will henceforth be endorsed with the words "licences of right". After the expiry of a period of three years from the date of sealing of the patent, anybody interested in working the patent in India will have the right to ask the patentee to grant him the necessary licence on a royalty basis.

(f) In such a case, the royalty along with other remuneration received by the patentee will not exceed 5 per cent of the net ex-factory sales price of the patented article.

In drugs and pharmaceuticals, product patents afford much stronger protection to the patentee than process patents. An argument for restriction of patents to processes is that it will encourage research on development of more efficient processes of producing the same product. In the US, UK and West Germany, among other countries, products as well as processes are freely patentable. In France, Austria, Japan, Netherlands, Sweden and Switzerland, products are not patentable. In Italy there is no patent protection for drugs and pharmaceuticals, either for products or for processes.

In most of the countries with patents restricted to processes, there is provision for compulsory licensing and revocation of patents in the event of non-use. The objective is to limit the monopoly power of the patentee and to prevent deliberate restriction of supply and

charging of high prices. Similarly, empowering government to use patents for its own purposes or for the use of government hospitals is unexceptionable and there is a similar provision in the British patents law. Some justifiable objection may be raised to the ceiling of 5 per cent on royalty. It could be argued that in a long-term statutory enactment of this kind a firm ceiling need not have been prescribed and instead the amount of royalty could have been left to be discussed between the two parties concerned and finally fixed with the consent of government.

What will, however, be objected to most strenuously is the reduction of the period of patent coverage to less than half the present period in case of drugs and pharmaceuticals. But both the Pharmaceutical Inquiry Committee, 1954, and the Health Survey and Planning Committee, 1961, (the Mudaliar Committee), had recommended reduction of the period of patent to between 5 and 10 years. That the profits made by pharmaceutical companies with foreign collaboration are exceptionally high and that their remittances on account of royalty and technical services are also high are both established facts. In view of such high returns on their investment no injustice is being done to the foreign pharmaceutical companies by

the reduction in the period of patent protection.

Bringing agricultural chemicals under drugs and medicines is a major innovation. It is difficult to predict how this step will affect the future development of these industries.

The Kefauver Committee in the US had found that generally prices of drugs and pharmaceuticals were the lowest in countries without product patents and with price control laws and the highest in countries which allowed product patents and which had no price control legislation. Now that we have simultaneously done away with product patents and introduced statutory price control, the impact on prices should be noticeable.

The large international firms will, of course, resent the changes since much of their expenditure on research and development in the home country are recouped from the high prices and the large revenues obtained in markets abroad — India being one of the largest of these markets. But these companies still have a vital source of protection in the system of doctors prescribing medicines by their brand names. So long as doctors continue to prescribe medicines manufactured by well known firms, the abolition of product patents will not have its full impact.

investment by a wide cross-section of the community" must, therefore, be taken with a pinch of salt.

The reason for the uninspiring rate of return on units is to be found in the Unit Trust's excessively conservative investment and portfolio management policies. Only a little over one-third (35.67 per cent) of the Trust's investments were in ordinary shares at the end of June 1970 while 55.61 per cent were in debentures and preference shares (42.13 per cent in debentures). Interestingly enough, the percentage of funds invested in ordinary shares has been actually declining over the years. It was 36.66 per cent at the end of 1968-69, 38.40 at the end of 1967-68 and 41.25 per cent at the end of 1966-67.

The Unit Trust has also not shown any marked ingenuity or enterprise in its portfolio management. By and large it has plumped for safe shares of well established companies — and stayed plumped, contenting itself with the dividend income. Its sales of securities have always been small and so have been its profits on these sales. Out of a total income of Rs 6.28 crores in 1969-70 a mere Rs 9 lakhs — which was lower than that in 1968-69 (Rs 12.89 lakhs) or in 1967-68 (Rs 13.88 lakhs) — came from profit on sale of securities.

It is difficult to avoid the impression that the fact that it has been able to show a fairly impressive expansion of business on the strength of the tax incentives available on units has over the years confirmed the Unit Trust in its unenterprising ways. Chairman Bhatt mentions in his statement that units are available for sale at 9,000 bank branches and over 15,000 post offices, but it would be interesting to know at how many of these bank branches and post offices they are actually sold. The statement also claims that "sales promotion efforts of the Trust continued to be oriented towards spreading the message of the Trust in the countryside" and points to the fact that the Trust had 2,303 approved agents at the end of the year as compared to 1,775 at the end of the previous year. But all this sales infrastructure is unlikely to bear much fruit in the sense of making the units an investment form for the common man unless the Unit Trust is able to earn a return on its investments high enough to give a dividend on units which will be attractive to people with little or no tax liability.

dual with a substantial marginal rate of income tax — the attractiveness of the units going up with increase in the rate of tax. This is evident from the fact that the average value per application for units from individuals (i.e., excluding institutional investors) was as much as Rs 3,046 in 1969-70, having gone up from Rs 2,666 in 1967-68 and Rs 2,920 in 1968-69. These figures do not, of course, indicate the average size of unit holdings per unit holder since the same individual no doubt applies for units in different years and also makes multiple applications in the same year. In the absence of the figure of the number of unit holders, it is not possible to know the average size of unit holdings, but this is likely to be very much larger than the average value of applications for units. The claim made by the Unit Trust's chairman, R S Bhatt, in his annual statement, that "units have now come to be regarded as a convenient medium of

Smooth Sailing

THE outlook for shipping changed radically in the sixties. This is most evident in the expansion and operations of the Shipping Corporation of India which is now the largest Indian shipping company. The Shipping Corporation's fleet expanded from 17 ships with 0.17 mn DWT on March 31, 1961 to 71 ships with 1.06 mn DWT on March 31, 1970. By the middle of this month its tally had reached 75 ships with 1.18 mn DWT and there were, in addition, 28 ships of 0.15 mn DWT on order. The average size of the Shipping Corporation's fleet has increased from 10,000 DWT per ship in March 1961 to 15,000 DWT in September 1970; the average size of ships on order is 17,500 DWT.

In keeping with the increase in the fleet, investment in ships has risen from Rs 20.38 crores in March 1961 to Rs 115.56 crores in March 1970 and Rs 128.50 crores in September 1970. More than half the funds have been found from share capital (Rs 23.45 crores) and internal resources (Rs 53.52 crores); loans from the Shipping Development Fund Committee and banks were Rs 38.67 crores, and only Rs 19.55 crores (about 15 per cent of investment) has been from deferred credits.

While the Corporation's fleet increased sevenfold in ten years, the quantity of cargo carried (excluding tonnage on charter) has increased only 4½ times over the period — from 0.52 mn tons to 2.32 mn tons. Operating earnings over the same period have increased tenfold, from Rs 5.67 crores in 1960-61 to Rs 52.89 crores in 1969-70. The tonnage on charter is not known. Perhaps the distances over which goods were carried (ton-miles) have increased over the period. The recent firming up of the freight market also accounts for a large part of the increase in operating earnings. The Corporation's net profit (after interest, depreciation and tax) was Rs 5.52 crores in 1969-70 against Rs 47.52 lakhs in 1960-61, but the dividend has been kept at 5 per cent — reflecting, no doubt, the Corporation's need to retain its earnings for financing further expansion.

In his Chairman's Statement, C P Srivastava refers to the problems of the Corporation: mainly difficulties in arranging deferred credits, getting early deliveries of ships and some slackening in the volume of cargo carried from the USA, Japan and the UK. But taking into consideration the highly competitive nature of shipping, he can take

legitimate pride in the performance of the Corporation.

Less Small among Small

THE Fourth Plan envisages a total outlay of about Rs 300 crores for development of village and small industries. Of this amount, Government sources are expected to contribute Rs 80 crores and banking and financial institutions Rs 70 crores; the balance of Rs 150 crores is to come from the private sector. In addition, working capital requirements of small-scale units are expected to be around Rs 500 crores, half of which would have to come from institutional sources.

To meet these financial demands the idea of setting up a special financial institution for small industries has been mooted. The ARC, in its report on small industries, recommended the setting up of such an all-India institution with an initial capital of Rs 25 crores. At one of its meetings earlier this year, the Standing Committee on Credit Facilities of the Small-Scale Industries Boards also supported the idea of establishing such a body. Recently, in a seminar in Bombay, the Maharashtra Small-Scale Industries Development Corporation argued that such an institution was needed, among other reasons, to broaden the equity base of existing small units and thereby increase their credit-worthiness.

It is, unlikely, however, that proliferation of institutions will solve the problem of small units. SSCIs (State Small Industries Corporations) and SFCs (State Finance Corporations) extend various types of assistance (including financial) to small entrepreneurs. And, through SFCs, institutions like ICICI give foreign currency assistance to them. With the nationalisation of banks, and expansion of banking into mofussil areas, sources of funds for small industries do not seem to be inadequate. There is definitely room for better co-ordination among the various agencies, but setting up one more agency will not achieve this objective.

Nor is the problem one of making credit available on 'cheap' terms to small industry. Preferential rates of interest will not make much difference. What will help is simplification of application procedures, prompt consideration of loan applications and making available financial and technical counselling to the small entrepreneur to improve the viability of his scheme. A large number of small entrepreneurs have difficulty even in maintaining proper accounts.

These small entrepreneurs who need help are quite distinct from those whose enterprises are in fact captive units of large-scale industries. The latter kind of units are generally the larger ones within the small-scale sector. Out of the assistance obtained by the small-scale sector from various sources, it would be interesting to find out what proportion is accounted for by such "large small units".

Synthetics Begins to Pay

TEN years after their initial investment (made, incidentally, with great enthusiasm), the shareholders of Synthetics and Chemicals have received a maiden dividend of 6 per cent. The company is now able to produce at full capacity and has been gradually paying off its loans. Purely in financial terms, Synthetics and its shareholders should see better times in the seventies.

Yet the company has its problems, short-term and long-term. Availability of alcohol has increased, but demand for rubber has been erratic — with one or the other tyre factory strike-bound all the time. Moreover, Government has imposed price control on synthetic rubber (making it now cheaper than natural rubber at the latter's newly-fixed price), along with an excise duty at Rs 300 per tonne. Synthetics' management problems, arising mainly out of the dispute about selling arrangements, also appear to be sorting themselves out — though Tulsidas Kilachand, the Chairman, can hardly be happy about the way things are moving.

Demand for synthetic rubber is likely to grow much faster in future. The user industries, mainly tyre manufacturers, are in the midst of an expansion programme. Besides, the proportion of synthetic rubber in total rubber consumption, at 24 per cent in 1969, is lower in India than envisaged (30 per cent) and also much lower than the proportions prevailing in other countries (for example, 53 per cent in Australia and 77 per cent in the US).

How much Synthetics is likely to benefit from all this is problematic. For one thing, it is a kind of monopoly — though, counting natural rubber, it is not. Moreover, Government has for some time been toying with the idea of a synthetic rubber plant as part of the petrochemical complex at Baroda. Synthetics has applied for a licence to expand capacity by 50,000 tonnes at an estimated cost of Rs 4 to 5 crores (?), but the fate of the application must remain a matter of hope.

BUSINESS

For Tax-Payers, Mainly

SALE of Unit Trust's units went up impressively in the year ended June 1970, being Rs 22.83 crores compared to Rs 17.16 crores in 1968-69 and Rs 19.14 crores in 1964-65, the highest figure touched in the past. However, the dividend declared by the Trust, at 7.2 per cent, was only marginally higher than the 7.1 per cent paid last year and was hardly anything for unit holders to enthuse over. At this level the yield on units compares unfavourably with that on good debentures.

Who then invests in units and why? Obviously, the real attraction lies in the tax exemption on the dividend income from units. Income upto Rs 3,000 from units and other specified categories of investments are exempt from tax. Also, for the first time, the 1970-71 Budget exempted from wealth tax investment in units, together with certain other types of investments, upto a total limit of Rs 1.5 lakhs. The typical investor in units is thus likely to be the indi-

The Kerala Pointer

Romesh Thapar

IT was in Kerala that the first democratically-elected communist government came to power. It was in Kerala that communists voluntarily gave up power. And it is in Kerala that the new Congress Party and the CPI have worked out a political collaboration which has isolated both the extreme Right and the extreme Left. This latest development, coming as it does after some three years of intense anti-Congressism, is likely to have wide repercussions on the Indian political scene.

What we are witnessing, in fact, is the crystallisation of a somewhat radical Left-of-Centre consolidation at State level. If it becomes viable, it is bound to be adopted as a model (with suitable modifications from State to State) for the whole of India. In the process, we are likely to witness a series of crossings from one party to another. These splits will represent processes seeking to provide a new balance of power between the parties. If, however, viability is not found and instability continues in Kerala, the impact of the Kerala developments on the political system in general will be most damaging.

REACTIONS TO LEAGUE

In the arduous effort to build viability, a number of side issues are likely to engage the attention of the whole country. The new Congress Party's association with the Muslim League in Kerala may appear innocent within the State (indeed, such association has existed in the past), but the reaction it is likely to generate in Northern India fol-

lowing Indira Gandhi's frontal assaults on Hindu communal organisations is likely to be embarrassing. Admittedly, many State-based parties are frankly communal, even though they hide their narrowness behind high-sounding labels, but the words "Muslim League" cannot but excite the living memory of the North. A lot of explaining will have to be done by the new Congress Party in Uttar Pradesh and Bihar where the Jan Sangh is not inactive.

Similarly, the future of the old Congress is now reduced to zero. So, too, the relevance of the CPI as a communist formation despite the patronage of the Soviet Union. If this assessment is correct, then the CPM will move to establish its role as the "leader of the proletariat". Meanwhile, the Jan Sangh leadership pushes to win demoralised Swatantraites, conservative Congressmen, dispirited princes and unattached Independents — maybe, even BKD elements — into a consolidation which is Right-of-Centre. The polarising process is well under way, even though the programmes and issues have yet to be formulated.

What we are witnessing today is the total supremacy of the politics of manipulation. But this should not lead us immediately to the kind of conclusion that so many eager theorists arrive at — that there will be extreme instability and increasing reliance on bureaucratic rule. This eventuality will become inevitable only if the present refusal to come to a programmatic confrontation persists. We may, in fact, be witnessing

the opening of such a confrontation forced by the rank-and-file of the CPI and the new Congress Party who question from their respective standpoints their leaders' singleminded faith in opportunist electoral alliances, adjustments, arrangements and fixings.

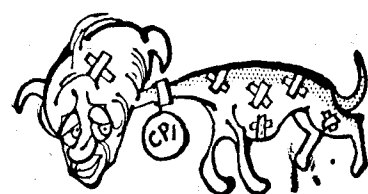
YOUTH CONGRESS ROLE

The Youth Congress in Kerala which was the main instrument in giving the new Congress Party the direction it was lacking, is a remarkable band of young men and women who have refused to play stooge to Left and Right. The CPI's dream of swallowing the ruling Congress Party is likely to be sadly interrupted by the Congress youth in Kerala. As for the rest of the country, there's no possibility for such 'dreams' because the new Congress Party remains much the same and with the youth prominently absent. A comparison of the situations in Kerala and Bengal offers interesting lessons.

With every passing month, it is becoming increasingly clear that India's 550 millions will be manipulated cynically unless the young activists of political parties at the grass-roots are able to force political attention towards critical problems and critical answers. The old and corrupt political elites of the various parties — never so corrupt as they are now — will have to be shaken from their roots. Without this shake-up, we will blunder along toppling and tipping, hoping that someone in this or that alliance will gobble up all the rest.

Soon attention will shift to the next act of the drama — Uttar Pradesh. What is to become of crafty Charan Singh? Will he gobble Indira's Congress or be gobbled?

September 20



"It was one of those Pavlovian experiments."

Record 'Badla' Rates

Nishtar

THE stock market appears to be in a somewhat chastened mood. Bullish fervour is beginning to cool off. After striking a new all-time high on September 16, the market has staged a mild retreat under pressure of profit-taking. Unable to attract fresh follow-up support at higher levels, bulls have been inclined to cash profits. Selling has been quite heavy at times, particularly in the speculators' favourites, but with the overall sentiment sustained by the steady flow of encouraging corporate news, profit-taking has been absorbed without causing a break in prices. Trading has not been altogether without some bright spots but it is the hitherto neglected or less popular equities which have been in the limelight. Net changes over the week present a mixed pattern with minus signs far outnumbering the plus signs.

Last week's setback is too small to need an explanation and it would be rash to jump to conclusions. However, one need not feel surprised if the market were to pause and rest its weary limbs for quite some time before resuming its bull campaign. The market has had a non-stop rise since about the middle of July and the rise has exceeded even the most optimistic expectations. When too much pressure has been generated on the upswing in a rising market, a technical correction occurs in much the same manner as the safety valve of a steam boiler pops and relieves pressure before the factor of safety has been exceeded.

The technical position of the market has been suspect for some time. 'Badla' rates at the turn of the last 10-day settlement ranged between 15 per cent and 20 per cent. Rarely, if ever at all, have the carry-forward charges ruled so very high. If the 'badla' rates are any indication, then the technical position of the market would seem to be very vulnerable. The record high 'badla' rates need some explanation. Apart from meagre "short" interest, the exorbitant carry-forward charges are attributable to reluctance on the part of financiers to finance 'badla' transactions arising from illicit forward trading under the 10-day settlement system. Stockbrokers too have been disinclined to induce their clients to finance 'badla' transactions because of the cumbersome

administrative work involved in giving and taking delivery which has to be effected on a cash basis instead of through the clearing house. There has been a considerable increase in speculative activity since the introduction of the 10-day settlement scheme and there has been a much larger increase in administrative work.

Though still indecisive, the stock market's overall behaviour suggests that the market has halted to allow technical forces to have their full play. This should provide market operators an opportunity to do some introspection. An increasing number of observers have been inclined to the view that the market has moved far ahead of the economic indicators. That the economy is moving forward is not in question. But the pace of growth is well behind the Plan targets. In a mid-term review of the state of the economy, the National Council of Applied Economic Research has expressed the view that raw material shortages, lack of policy clarity and restriction on growth of large industrial houses will act as dampers on growth.

Reports from New Delhi indicate that Government is determined to reserve to itself the right to convert into equity the loans advanced by public financial institutions to industrial undertakings. The stock market cannot be expected to view this with favour. Once the mood changes, market's attention is likely to be drawn more and more to adverse influences which it has ignored for long.

Importers on Strike

IMPORTERS listed on the East India Cotton Association's panel continue to be on strike. They had suspended deals in foreign cotton to protest against the terms and conditions laid down in the import procedure prescribed under the canalisation scheme. The gross margin of half a per cent of the value of imports is considered to be extremely inadequate and the stipulation regarding pre- and post-contract inspection within a period of four or five days is found to be unworkable. Discussions with the Cotton Corporation to reach a satisfactory settlement have not borne

any fruit so far. Since foreign suppliers do not normally bind themselves to the quoted rates for more than 24 hours, the provision regarding clearing even the proposed buying contracts within three days seems unduly harsh and unbusinesslike. The trade's suggestion that inspection should be confined to final contracts and deterrent penalties should be imposed on the erring importers merits serious consideration. The Cotton Corporation will need to take utmost care to ensure that procedural difficulties do not disrupt the import programme. Mills should have complete freedom to effect their purchases when they deem it most appropriate. It is heartening to learn, that the Cotton Corporation has dealt with all outstanding business and no import applications are pending with it (September 22). The need to ensure that the industry gets its requirements of foreign cotton in time and at prices that are reasonable can scarcely be over-emphasised.

New Delhi has at last announced the export policy for cotton. Export of Bengal deshi and of miscellaneous fibres such as Assam, comilla, zoda and yellow pickings will be licensed freely. Thus there is no change in the old policy. None was expected. It is a pity that the policy should have been officially announced after three weeks of the commencement of the season. Why can't the authorities avoid such irritating delays? Export sales, subject to policy declaration, are mentioned around 20,000 bales. Maybe, larger sales could have been effected if the policy had been announced before the commencement of the season. New crop Bengal deshi is currently estimated around 4.75 lakh bales — nearly one lakh bales more than in 1969-70. But Indian deshi will have to face stiffer competition from Pakistan this season because of the bigger crop there. Even so, it should not be difficult to export about 2.25 lakh bales. Exports last season amounted to 1.87 lakh bales against 1.59 lakh bales in 1968-69. Of this, Japan, the biggest buyer of Indian deshi, accounted for 1.53 lakh bales (1.14 lakh bales), followed by the Continent 22,698 (32,075), USA 9,838 (10,696) and UK 1,181 (1,107). Very small quantities went to other destinations.

Imports of cotton during 1969-70 were substantially higher at 706,472 bales against 296,799 bales in the preceding season. The break-up figures are: American cotton including Peru-

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vian 314,645 bales (51,944 bales), Egyptian 141,806 (96,432), Sudan 161,577 (84,854), African 73,850 (58,117) and others 14,594 (5,452).

The cotton market displayed a steadier tendency last week on satisfactory spinner inquiry and poor offerings. Bengal deshi prices firmed up by about Rs 45 a candy on export inquiry. Weather reports from the major cotton growing areas have been very satisfactory up to now. But some anxiety is being expressed at some places over excessive rains. With many crucial weeks still ahead, cotton men are keeping their fingers crossed and few are inclined to hazard a guess about the crop. All that one can say is that the crop will have to be really good to produce a significant decline in prices.

Bumper Crop Starts Moving

THE mood has changed and the oil seeds market has developed a soft tone on expectations of a bumper groundnut crop which has already started moving into the market. The pace of arrivals is still slow but it will pick up in the coming weeks, depending on the weather. Rains can not only delay the harvesting of the crop but also affect the movement of the crop already harvested. Spot groundnut oil (in Bombay), which had been bid up to an all-time high of Rs 5,675 (per tonne) in the previous week, has eased to Rs 5,200. The fall would have been still bigger if arrivals had not been affected by rains in certain producing areas where the crop is ready for harvesting. That the groundnut crop will set a new record is no longer in doubt. How big the crop might be is another matter; estimates range between 64 lakh tonnes and 70 lakh tonnes (in shells). Few observers place the crop at below 64 lakh tonnes. As against the spot quotation of Rs 5,200, October delivery is quoted around Rs 3,900 and November position is mentioned around Rs 3,500. The wide spread between spot and distant positions will narrow down quickly with the increased flow of new crop supplies. The fall in edible oil prices should be welcomed.

Expectations of a record groundnut crop and ideal weather conditions for rabi sowings have imparted an easier tendency to the futures market. Linseed April and castor April are quite close to the lowest levels recorded in their short career — Rs 133 and Rs 113 (per quintal), respectively — and it will not be long before linseed and castor make new lows. Because of the tight stock

position, the maturing September contracts are quoted at huge premiums — about Rs 47 in the case of linseed and Rs 33 in the case of castor.

Export business in groundnut extractions stands completely paralysed. Neither the Karmahom Conference nor the Japanese lines are able to clear the outstanding commitments; nor are they able to assure firm bookings. Karmahom Conference has still to disclose its mind about the quantum of increase in freight rate to be effected from November 1 and again from January 1. Meanwhile the Japanese lines have sent out feelers about the freight to Japan be-

ing stepped up from the present \$ 14 to \$ 26 (per tonne) from the beginning of next year. As if this was not bad enough, the Japanese Government has raised the issue of the presence of aflatoxin in Indian groundnut extractions. This is a matter of serious concern. New Delhi will do well to clear this issue with the Japanese authorities at the earliest. Unless Government acts promptly to counter the adverse influences, there is a danger that exports of groundnut extractions — an important foreign exchange earner — will suffer a serious setback despite record groundnut production this season.

COMPANIES

Too Costly Stop Gap

Hansavivek

INTERNATIONAL TRACTOR's chairman, Keshub Mahindra, stresses that tractor shortage in the country is not the result of the industry's inability to increase production. In its haste to bridge the gap between demand and production, Government has imported tractors indiscriminately and this will create problems in the future without taking the country any nearer self-sufficiency. Large numbers of completely built-up tractors of various makes and models are being imported from several countries. Many of these, Mahindra underlines, are of doubtful design and dubious functional capability. They will, however, require massive imports of spare parts for replacement to keep them in operation. In the circumstances, it should not be surprising if many of these tractors head for the junk yard in the near future. It would be more practical to import only such makes as are presently being manufactured in the country or models for the indigenous manufacture of which approval has been given.

Some 15 manufacturers have been licensed for a total production of 1,36,000 tractors. If the capacity licensed per manufacturer is small, manufacturing costs will naturally be higher and the consumer will have to pay higher prices for the products. Following, again, from the inadequate scale of manufacture, manufacturers will not be in a position to give adequate training and after-sales service to farmers who may be spread over the country.

If Government's present policy is continued, the Indian farmer will for many years be saddled with expensive tractors whose costs will bear no relationship to the international prices. Mahindra emphasises, however, that he does not mean to suggest that restrictions on further licensing of tractors should be imposed with a view to avoiding competition.

Referring to statutory price control, he concedes that, while there is great merit in price control, particularly for commodities in short supply, any such control must be administered so it is fair to all consumers, producers, and shareholders. Prices have become sensitive political issues, and applications for even legitimate price increases have been pending with Government for a long time. Tractors supplied by Mahindra's own company are, according to him, at prices which are completely 'unremunerative'.

MYSORE PAPER has produced good results for the year ended March 1970, with increase in production from 21,284 tonnes to 23,590 tonnes and in sales from Rs 391 lakhs to Rs 452 lakhs. Gross profit more than doubled at Rs 99 lakhs (Rs 45 lakhs). Of this, more than Rs 97 lakhs were provided for clearing arrears of depreciation for 1967-68 and 1968-69 and part of depreciation for 1969-70. The balance of depreciation, that has still to be provided for 1969-70, amounts to Rs 14 lakhs. Higher output apart, these results arose on account of 'slight' increase in selling

prices. The directors complain that there has been 'all-round increase' in costs. Market conditions are favourable and, with the high demand for paper, sales have been brisk.

DEMPO STEAMSHIPS was permitted by Government to purchase two large ships of 60,000 DWT each, but it could not buy any because of steep rise in prices of ships and because shipyards in Europe offered long periods for delivery. Meanwhile, a second-hand ship of 16,481 DWT is being purchased for DM 6,100,000 with a foreign exchange loan from ICICI. Expected to be delivered soon, this ship will undergo certain alterations in next February whereby its DWT will increase by about 1,100 tonnes. In April last, the company took on time-charter for three years from Jayanti Shipping a bulk carrier of 36,471 DWT whose earnings will be reflected in the current year. During the year to March last, the two second-hand ships of 16,600 DWT contributed to the company's revenues, with the result that, freight and charter hire earnings were up, from Rs 199 lakhs to Rs 306 lakhs, and gross profit increased, from Rs 69 lakhs to Rs 102 lakhs. With increased provision for depreciation, net profit was Rs 33 lakhs against Rs 30 lakhs. But the unchanged dividend of 10 per cent was still covered 3.3 times, though net return on total funds employed in business worked out at barely 3.2 per cent. The directors say that these results reflect the 'unremunerative' freight rates obtained for a major part of the year and the strike of bargemen in Goa from February to mid-July 1969. In addition, bunker prices rose by 40 per cent in different parts of the world and a three-year wage agreement, effective from the beginning of 1969, resulted in a 40 per cent increase in salaries.

INDIAN ORGANIC is raising capacity of its plasticiser plant to the licensed capacity of 10,000 tonnes from the present 3,000 tonnes. The company is seeking increase in the import quota of 2-ethyl hexanol, one of the basic raw materials, which is in 'acute' short supply. The benzyl products plant with a capacity of 300 tonnes per annum has been installed. The quality of benzyl chloride meets with the international standards. During the year ended March last, sales expanded from Rs 1.32 crores to Rs 2.30 crores and gross profit from Rs 52 lakhs to Rs 73 lakhs. Net profit was Rs 37 lakhs (Rs 22 lakhs) to cover the 12 per cent dividend on the capital enlarged by a two-for-five bonus

issue 4.4 times. Net return on the total funds employed in business came to 18.7 per cent. Production of acetic acid and ester solvent, which showed considerable improvement, is likely to increase further in the coming years owing to the modifications carried out in the plants. The equity and preference issues, made for financing the polyester project, were oversubscribed 19.8 times and 1.6 times respectively.

JAIPUR METALS AND ELECTRICALS was able to export products worth Rs 3.32 crores in the year ended March 1970 and is keeping up the same tempo in executing the balance orders on hand. It has now secured orders for export, mainly of ACSR conductors which have brightened the outlook for this division because of the assured orders and adequate supplies of raw materials. The 1969-70 results were severely affected by lower realisation of meter prices on earlier firm commitments, and also by the 15-day strike and the all-round rise in costs. The strike, started by workmen to press for implementation of the wage board's award on engineering industries in Rajasthan, ended following an amicable settlement, but not before it entailed considerable increase in wage bill. The company was able to step up turnover by 18 per cent to Rs 6.53 crores, but had to fight a losing battle on margins. The outcome was a bigger trading deficit of Rs 36 lakhs,

against Rs 19 lakhs in the previous year. After providing for depreciation and taxation for prior years and after making some other adjustments, the deficit came to Rs 45 lakhs, lifting the accumulated deficit to Rs 54 lakhs. The directors perceive welcome signs of improvement in the working and expect that the company will soon turn the corner. Meter production is being stepped up and several other steps have been taken to effect economy in operations.

VICKERS SPERRY OF INDIA stepped up its income from Rs 39 lakhs to Rs 67 lakhs and gross profit from Rs 10 lakhs to Rs 21 lakhs in its fifth year ended March last. After depreciation, net profit was Rs 13 lakhs (Rs 6 lakhs) which covered the 10 per cent maiden distribution on the amount paid-up on shares over fivefold and offered a 17 per cent return on the total funds employed in business. Building construction has been taken in hand to increase the covered factory area from 1,250 sq metres to 3,000 sq metres. New equipment and tooling are being installed to increase production. An application has been made for a substantial expansion of the company's activities. The company has a healthy order book, and deliveries are running at a satisfactory level. Reflecting the investors' confidence, VSI's Rs 10 share — on which Rs 5 have been paid up so far — is quoting at around Rs 21 in the market.

FROM OUR CORRESPONDENTS

NEW DELHI

Issues for Pay Commission

THE Third Pay Commission has recommended an interim relief, for Central Government employees, of between Rs 15 to Rs 45 to be paid retrospectively from April 1970. Government is evidently in such haste to implement this recommendation that it may not even wait for the return of Finance Minister Y B Chavan, who is currently abroad attending the annual Fund-Bank meetings, before it announces its decision. In the face of the mounting restiveness among government employees, Government clearly wants to cool the situation before a confrontation arises.

Not that the employees' organisations will readily accept the terms of

relief. Their demand has been for an interim relief of Rs 70 to all employees drawing emoluments of up to Rs 350 and of 20 per cent of the emoluments of the others. They have also demanded that the interim relief be with retrospective effect from February 1969.

The wide gap between the employees' demand and the Pay Commission's recommendation on interim relief is not, however, all that there is to the dispute. The Central employees and their organisations are apprehensive that if they accept the interim offer without much ado it may tell on the terms offered in the final report of the Commission in which they have a more lasting interest. In fact, earlier too, it was the pres-

sure the employees put on Government that had forced it to modify the terms of reference of the Pay Commission — to include not only the question of rise in cost of living and the extent of its neutralisation but also the much wider and more fundamental question of a need-based minimum wage and of wage levels comparable to those in the other industries.

Government will very likely maintain that these wider questions will become relevant only in the final report of the Commission and that the question of interim relief should be viewed on an *ad hoc* basis and in the context of the employees' existing salary and allowance structure. Since Government intends to accept the Commission's recommendations on interim relief *in toto* it may be expecting to face less trouble. The employees, however, will insist that broader considerations cannot be ignored even in deciding on the interim relief and they will hope that, with pressure on Government thus kept on, their case will not go by default in the final report of the Commission.

Two important factors are strongly contributing to the growing restiveness among the employees: first, the constant erosion of their real emoluments on account of the steady rise in cost of living over the past several years; and, secondly, the glaring disparity in their emoluments compared with emoluments in the organised industry outside the government pale — particularly in service industries such as banking and insurance where white collar workers predominate.

The existing salary structure of government employees is based on the norms laid down by the First Pay Commission. These were maintained by the Second Pay Commission. The First Pay Commission's norms had been based on a minimum wage related to the subsistence level with suitable neutralisation of the rise in cost of living particularly for low-paid employees. Since then, the concept of minimum wage has evolved to mean, not wage at the barest subsistence level, but a 'fair wage' or a 'need-based wage'. The tripartite conclusions of the Fifteenth Indian Labour Conference on the question of need-based wage have become the starting point for wage claims of organised workers, and Central Government employees have been pressing for the application of this principle in the determination of their own emoluments. In fact, the 1960 general strike of Central employees and their token strike in 1968 stemmed from this stand, while

Government continued to be concerned with the financial burden of such claims.

The employees' case is that, with the minimum salary fixed at subsistence level and in the absence of full neutralisation of the rise in cost of living, their emoluments have been eroded over the years to even below the subsistence level. The arrangements for the neutralisation of the rise in the cost of living recommended by the First and Second Pay Commissions, which have been in operation for over a decade, were based on the assumption that the price level would be stabilised at a level lower than was prevailing at the time the Commissions examined the problem. But this decade has seen a steep rise in the price levels and there is no assurance that the trend will not persist. If the lag between investments particularly in the public sector and the returns from them, was the cause of the rise in the price level in the late fifties and early sixties, there was in later years another price spiral on account of the shortages in the economy following the setback to agricultural production. The present high price level can hardly be brought down if agricultural prices have to be maintained at scarcity levels as an incentive for the producer. The DA formula of the Second Pay Commission is, therefore, totally unrealistic and unsatisfactory today. Government's professions about a phased programme for a need-based minimum for its employees can no longer impress the employees in the face of the erosion of their real wages.

The observations of the First Pay Commission are also relevant: "While it is true that the State as employer should not take undue advantage of the law of supply and demand, especially in fixing salaries at the lower grades of service, it cannot ignore the extent of outside demand for particular classes of service when there is such a demand." The position at present is that Central employees are far behind their counterparts in comparable industries in the matter of wages. The absolute wage gap between bank and Central Government employees in the minimum scale of Class IV works out at Rs 63 in the first year and at Rs 196 in the twentieth year of service. In terms of percentages, it will be 45 and 125, respectively. In the minimum scale equivalent to Class IV, the Life Insurance employee earns 123 per cent more than a Central Government employee, and in Class III, the wage gap is of the order of 160 per cent. The corresponding figures with

reference to the Reserve Bank of India are 103 and 190 per cent. The Union Government will, therefore, have to reassure its employees that it is in fact doing all it can to minimise this glaring hiatus between what it offers and what other comparable employers offer.



Apropos the aerial surveys for minerals, Government has formally implemented the recommendation to bring the special department created for this purpose under the Geological Survey of India — but not before the Ministry bureaucracy has managed to nullify the basic purpose of such integration. While the department will be formally under the GSI, its executive head is to retain the designation of the 'Deputy Co-ordinator' with the Secretary in the Mines and Mineral Department retaining the position of Chief Co-ordinator! This is an obviously anomalous position. For, the Director General of the GSI who will be formally answerable for the Department's activities will not, however, have anything to do with its running and the Secretary will continue to head it and conclude agreements with foreign parties without reference to the GSI or its technical advice.

GSI, the oldest of the scientific institutions in the country, has become a victim especially, in the past four years, of thoughtless interference and bungling on the part of the Ministry bureaucracy. Major organisational decisions have been put through in contravention of the recommendations of high powered committees set up for reorganisational purposes. The merger of a part of the Indian Bureau of Mines with GSI in advance of the report of the Mookerjee Committee which had been set up to deal with the problem, is an instance of this. Much to the discomfiture of the Ministry bureaucracy, the Mookerjee committee reported against the kind of merger effected. Later, it required all the effort of the bureaucracy to safeguard its prestige and to justify and maintain its action — to do which it had to exploit all the ills of groupism and regionalism at its command. In such circumstances, it is not surprising that a visit of one of the GSI officers to South Africa to attend a geological meeting was arranged. The External Affairs Ministry and the Finance Ministry raised objections, because of its venue. But strings were pulled and, at the last minute, objections were somehow overcome to make it possible for the officer to go. These are the priorities that rule New Delhi.

Meaning of Kerala

Mohit Sen

IT is essential that any analysis of the election results in Kerala should start with stating the obvious. The heavy turnout of the voters — close to 75 per cent of the total electorate, itself considerably enlarged — demonstrates that in one of the most politically advanced States in our country, the masses have an attachment to parliamentary democracy. They have very far from lost their faith in utilising this system to further their aspirations. That this is the position in Kerala with its unenviable record of general elections and where social antagonisms are well advanced is of the greatest significance. And this is the position a good two decades after this system was established in our country.

The limitations of this system are many and serious. The most important of these is the continuing power of wealth based on a system of extreme inequality. The imperviousness of the bureaucracy and the strength it possesses is another serious limitation. Nevertheless, the use of this system alongside of and in combination with extra-parliamentary mass actions is not only possible for advancing the nation but desired by the people as well. How to work this combination becomes, then, one of the more significant questions of the Indian revolution and cannot be swept aside by so-called "revolutionary" rhetoric. And it is precisely its utility which increases the danger of its subversion by reaction as social struggles sharpen.

The second observation which requires to be made is the serious defeat suffered by the CPI(M). When the Kerala Congress and the ISP dropped out of the United Front, the CPI(M) leaders also dropped all their previous objections to the holding of the elections. The need for revising electoral rolls, the difficulties that the rains would cause, were all quietly forgotten. The CPI(M) leadership gave up talking about boycott and moved in for the electoral kill. Triangular contests would now take place and this would ensure the victory of their party. It is necessary to recall the calculations made by many commentators ranging from the *Statesman* to the *Frontier*. These calculations were only rather feeble echoes of what the Marxist leaders themselves were dreaming about. They looked forward to about 55 seats for themselves and another 15 for their allies, giving them

a clear majority of 70 seats in the 133-seat Assembly. The obverse of these calculations was that the CPI would be cut down to about five seats and the United Front itself reduced to about 20 with the Muslim League being the other sufferer! The Congress(R) was given 15 seats with the Kerala Congress and the Congress(O) claiming roughly equal shares of the remaining 18.

The CPI(M) leaders based their calculations on the facile assumption that the overwhelming majority of the rural poor and the town toilers had their anti-Congress and "anti-revisionist" feelings intensified in the past few years — the exact opposite of the reality. And by identifying these two as the main enemies to be destroyed they hoped to capitalise on these feelings and to cover up their adjustments with the Congress(O) and the Jan Sangh.

It has not escaped the attention of close observers of the Kerala scene that E.M.S. Namboodiripad managed to secure the withdrawal of the Jan Sangh candidate in the Pattambi constituency without which his narrow 3,000-vote win might not have been possible. And it was no accident that Balraj Madhok and Atal Bihari Vajpayee's main stress during their campaign was that while the CPI(M) was an "ultimate enemy", it at least had no international affiliations unlike the "Soviet-dominated" front of the CPI-Congress(R) which, therefore, was the "immediate" enemy. Combination with the "ultimate" enemy to defeat the "immediate" enemy was quite in the Indian tradition as sanctified by Kautilya!

But in the outcome the CPI(M) had its seats slashed by a little less than half and was only just able to retain its 23 per cent of the votes cast, contesting roughly about the same number of seats as in 1967, perhaps a little more. Its discomfiture is evident in the fact that so far the CPI(M) leadership has had hardly any comments to make on the result and they are not normally a reticent lot. Even more ominous is the uncontradicted report that the Polit-Bureau would hear two reports on Kerala — one by Ranadive and the other by Namboodiripad. Evidently, the latter is in for another round of badgering leading to further self-criticism.

The mass base of the CPI(M) remains large and it is the best organised of all the parties in Kerala. But it is

not a base that is growing. It should be remembered that not all the votes this party received in the present election are its own. Some of it represents the votes of the Right and some the votes of Communists who are still stuck in anti-Congress digests. But since in 1967 they received the votes of their United Front partners, 23 per cent of the electorate would represent the limits of this party's strength — formidable, but not frightening. This mass base prevents any rethinking because its size enables self-satisfied sectarianism to persist but it also disables the more adventurist postures of sections of the CPI(M) leadership from going beyond the stage of postures. Immediately significant rethinking is not likely. This would come only if the Government that is formed accomplishes social change and raises the people's level of living. This obduracy is a big handicap for the unification and progress of the Left and democratic parties and forces in the State. It is self-defeating and frustrating for the people and the sooner that some sort of rethinking starts the better. Indeed, if it is not given up it will become extremely difficult for the soberer sections of the CPI(M) to resist the drift towards a Ranadive-ite adaptation of the futile but damaging tactics of the Naxalites.

The third feature of the Kerala election results is the good showing of the Congress(R) which has jumped from five seats to 32 with 19.9 per cent of the votes. Comparison of this percentage with the previous record of the Congress is not possible because of the split in the organisation as also because the number of seats it contested was less than half of the figure in 1967. While its seats are out of proportion to the votes received and beyond the 25 or so that most persons expected it to win, it has demonstrated its re-emergence as one of the most important political entities in Kerala.

What is not always sufficiently realised is that this re-emergence of the Congress is the re-emergence of a Congress that has moved from the Right to Left-of-Centre, that has shown that it has a large number of radically-inclined young cadres free from anti-Communist prejudices and that has faithfully implemented the line of working together with the Left and democratic parties. It is not the re-emergence of the Congress of 1967 but of quite a different entity. This is not at all to say that there are no conservatives and reactionaries in this Congress. There are such elements. But, at least in the elections, they have not called the tune. And this change in the character of the

Congress not only enabled it to win votes on its own but enabled the appeal of the Left parties to voters in Congress constituencies to vote for the Congress, despite the animosity of only some two years ago, to be heeded. Above all, it is this change that enabled the traditional Congress voters also to vote more Left than they might have been inclined to do some months ago. This fact is going to be of the greatest significance in the immediate future.

IMPORTANT GAINS FOR CPI

The fourth feature is the reasonably good performance of the United Front of the CPI, the Muslim League, the RSP and PSP. The CPI and the Muslim League have lost four and two seats respectively but their percentages of the poll as compared to both 1965 and 1967 have edged up to 9.2 per cent and 7.6 per cent. Comparisons are, again, rather difficult since both were partners with the CPI(M) in 1967 and bore the brunt of its fury this time.

In the case of the CPI the going was particularly difficult as it had gone in for a political line and alliance which the traditional Communist base was quite unaccustomed to. Indeed, the split (which, after all, is only about six years old) was about the so-called propensity of those who are now in the CPI to fall in line behind the Congress. And now the flags of the CPI and the Congress were fluttering together. It is no accident that the main theme of the propaganda of the CPI(M) was to denounce this combination to the exclusion of everything else. Thus, the increase in the CPI's poll, its re-establishment in the Malabar districts, the vindication of its political line and the establishment of living contacts with a huge mass of Congress followers and cadres, are very important gains.

E.M.S. Namboodiripad's attempt at self-consolation by stating that the United Front has lost three lakh votes (together with the Congress) will deceive nobody. The Congress figures this time are not comparable at all with the previous ones and the defection of the Kerala Congress upset all calculations. About the last-named party, evidently both it and the United Front made wrong assessments. It thought that it would emerge as the third largest force after the Congress(R) and the CPI(M) and that its strength was vastly superior to that of the CPI. This claim has been disproved. At the same time there could have been better mutual adjustments between these three

parties in which event all would have gained.

The Muslim League demonstrated its character, largely as a regional party in areas where Muslims are heavily concentrated. But it is essential to remember that its line of propaganda was secular, it accepted a radical programme and willingly allowed its audiences to be addressed by radical, secular parties. If the Muslim minority is to be integrated with the mainstream of democratic advance in India and if its grievances are to be redressed, then there is no better way than the joint election campaign which has just concluded.

The difference in the character of the United Front as compared to the People's Democratic Front is demonstrated in the break-up of the partywise affiliation of the victorious candidates. In the latter front's 44 MLAs, as many as 29 belong to the CPI(M) with another five sitting with it in the party bloc. In the former front not only are the three main partners of relatively equal stature but it seeks an alliance with another equal, the Congress(R). The question of "hegemony" is not raised at this stage.

Story the Votes Tell

G S Bhargava

WHILE the CPI(M) has undoubtedly lost the recent Kerala election by not having been able to win a majority of the seats or even retain their position in the dissolved Assembly, it is wrong to say that the people of Kerala have rejected the Marxists, their ideology or even tactics. It is equally wide off the mark to interpret the successes of the Congress led by Indira Gandhi as a political comeback by the party. While the number of seats won by a party are crucial in the kind of electoral system we have, the popular vote is the real index of the people's political preferences.

A comparative study of the voting pattern in the eight elections — held in 1948, 1952, 1954, 1957, 1960, 1965, 1967 and 1970 — poses certain problems. There have been too many variables, apart from political developments like the splits in the two principal parties, the Congress and the Communist, and the shifting electoral adjustments. For instance, in 1948, 1952 and 1954 the territory covered was only the former Travancore-Cochin, including the present Kanyakumari district of Tamil

What of the future? Again, it would be hazardous to forecast when the Ministry is likely to be installed within about a week of writing and much less than that of the publication of this despatch. What can be stated is that the outcome which would best serve the interests of Kerala and that of further consolidation of Left and democratic unity in this State as well as throughout the country, would be a United Front-Congress(R) coalition with the leader of the former as the Chief Minister. It would improve matters should the co-operation of the Kerala Congress be secured in a Ministerial or non-Ministerial form.

Most important of all, however, is the drawing up of a platform or programme for immediate action by the United Front and the Congress(R). The core of this platform would be to resume implementation of the agrarian reform law and the drive to develop Kerala industrially. It is only by the swiftest possible accomplishment of structural reforms in the State that the favourable election outcome can be carried forward as a pace-setter for the rest of the country.

September 20

CHANGING COMBINATIONS

The total number of Assembly seats which was 108 in 1952 has now risen to 133 as a result of four delimitations of constituencies. The changes in the electoral combinations and permutations have been equally significant. The Congress was the only party in 1948 and so that election can be left out of this comparative study. In 1952, there was a United Front of Leftists, comprising the undivided CPI, the RSP and the KSP pitted against the Congress backed by the then Travancore-Tamilnad Congress.

In 1954, the United Front of Leftists was again the principal opposition to the Congress but the PSP had a no-contest arrangement with the UFL. In the end, however, the PSP formed a minority government with the support of the Congress which was the single

TABLE : VOTES POLLED BY CONGRESS AND CPI(M)

	(Percentages)				
	1957	1960	1965	1967	1970
Malabar Congress CPM	36.7	34.01	35.2	33.4	16.5
	30.9	32.6	33.3	29.5	29.4
Cochin Congress CPM	47.8	48.3	49.3	42.3	25.8
	31.7	34.6	31.2	25.9	20.0
Travancore Congress CPM	34.5	35.6	56.4	36.3	14.9
	36.4	41.9	28.4	20.2	22.4

largest party but short of an absolute majority. The 1957 election saw the coming to power of the first ever communist government in any State. In 1960, there was a formal triple alliance among the Congress, the PSP and the Muslim League which scored over the CPI and its allies. By 1965 the Communist Party had split, but the two factions were, if not jointly at least severally, pitted against the Congress. The Muslim League, too, was in the Opposition camp. In 1967, the United Front was enlarged to include the KSP and KTP also, while the Congress was weakened by the emergence of the Kerala Congress.

The situation is further complicated now by the two Communist parties fighting each other out for the first time since they parted company, and the split in the Congress. The former division of the electorate into pro-Congress and pro-Communist categories has thus ended. The line-up of the Muslim League with the CPI against the Marxists is another important development.

BETTER INDEX

No statistical study can make allowances for all these variables. So, for the purpose of this assessment Indira Gandhi's Congress has been taken as the successor to the undivided Congress. As a corrective to the assumption, the CPI(M) position is adjudged by comparison with that of the undivided Communist Party in 1957 and 1960. This has meant denial of weightage to the CPI but it is perhaps warranted by its performance in 1965. In 1967 even when both the Communist parties were in the United Front, the CPI popular vote was only 7.38 per cent of the valid votes polled as against CPI(M)'s percentage of 23.1. The CPI did not have any candidate of its own in the Malabar region in 1967 and it did not win any seat in the area in 1965.

The region-wise percentage distribu-

tion of votes between the Congress and the CPI(M) given in the accompanying Table is revealing. For the whole of Kerala, the Marxist share of the popular vote is 1.75 million or the highest polled by any single party. It constitutes 28.9 per cent of the total valid votes polled as against 19.7 per cent by Indira Gandhi's Congress. The CPI share is a mere eight per cent. It will be argued that since the CPI(M) this time contested relatively more seats than in 1967 and the Congress relatively fewer, the popular vote is not a true index of their respective strengths. No doubt, the number of seats contested is relevant, though the mere capacity

MAHARASHTRA

Leisurely Search Goes On

Y D Phadke

FOR the last fourteen years, the border dispute between Maharashtra and Mysore has been kept pending by the Union Government. The present Prime Minister, like her two predecessors, has continued to explore the possibility of its satisfactory settlement in a leisurely and nonchalant manner. For some time, Indira Gandhi appeared to be toying with the idea of division of the city of Belgaum. Subsequently it was reported that she was seriously considering other moves such as an opinion poll to decide the future of Belgaum or the appointment of a three-man tribunal to have a fresh look at the dispute. It seems that she has now abandoned all these moves and is trying to persuade the presiding officers of the two Houses of Parliament to agree to the appointment of a joint committee to consider the Mahajan Commission report.

Despite their threats to precipitate a crisis if the Union Government further delayed a decision on the boundary issue, the hawks in the Maharashtra Pra-

to field candidates is not a sign of popularity.

For example, Congress(O) contested 39 seats, winning none and reaping a total popular vote of 2.6 lakhs, whereas the SSP, with only 14 candidates, six of whom have been successful, has a popular vote of 3.3 lakhs. Secondly, though the CPI(M) had more candidates now than in 1967 its popular vote in the Malabar region is slightly less now, which reflects the fact that in 1967 it had an alliance with the Muslim League whom it fought this time.

POLITICAL MIND

The proportion of valid votes polled to the total electorate is also important. In the recent election the electorate of 10.1 million formed nearly 50 per cent of the State's estimated population, which is a slight improvement on the 1967 figure of 44 per cent. It is nearer the 1965 total of 47 per cent. The percentage of valid votes polled to the total electorate is 74 this time, as against 72.9 in 1967 and 73.9 in 1965. Therefore, the popular vote is, if anything, more representative of the political mind of Kerala than it was in the past.

desh Congress had to postpone the scheduled meeting of the MPCC. The postponement of their much-publicised meeting and their reported assurance to the Prime Minister that they would accept the verdict of the proposed parliamentary committee did not surprise anyone in Maharashtra. It is known that barring Vasantdada Patil, the President of the MPCC and a few of his colleagues, other prominent Maharashtra Congress leaders, including Y B Chavan and Vasantrao Naik, are not prepared to resort to such pressure tactics as tendering their resignations on this issue. The clumsy and half-hearted manner in which the ruling party, possibly in collusion with the opposition parties in the State legislature, had earlier tried to exert pressure on the Prime Minister, did not serve any useful purpose. The Prime Minister has refused to oblige the Maharashtra leaders by announcing a time-limit for solving the dispute and nor has she so far made any commitment regarding the nature of the possible solution.

It is becoming increasingly difficult, especially after the settlement of the Chandigarh issue, for the ruling Congress leaders in Maharashtra to justify the unconscionable delay on the part of the Prime Minister whose vague assurances and declarations of good intentions have ceased to inspire much confidence. In view of Indira Gandhi's image as a politician capable of taking prompt decisions, whether right or wrong, and pushing them against all odds, the widespread feeling in Maharashtra is that she will not seriously consider this issue till it becomes so explosive as to threaten her position as Prime Minister. It is argued that the Prime Minister can safely assume, for some time at least, that the Maharashtra Congress, largely though not completely controlled by Chavan, will be on her side, whereas she cannot afford to weaken the Congress(R) in Mysore where the party is gaining strength. It should be noted that the Congress(R) in Mysore has publicly criticised Congress(O) leaders like Veerendra Patil for demanding the implementation of the Mahajan Commission Report and have stated that the *status quo* is preferable to the acceptance of the Mahajan Commission Report which would result in the loss of a town like Nipani.

CHAVAN'S ADVICE

It is said that a vocal section in the Maharashtra Congress Legislature Party recently expressed its resentment by warning the Prime Minister that the forbearance and patience shown by them so far should not be misinterpreted as their weakness. Some legislators, including one or two prominent ministers of the State Government, are believed to have made a strong plea for some action to convince her of the urgency of the need to settle the border dispute. The angry critics within the party, however, dutifully changed the harsh tone of their speeches when they received an urgent message from Chavan who advised them to wait for some time and trust the central leadership of the party. In fairness to Chavan, it must be said that he has never adopted a defiant posture on such issues and has preferred to rely more on persuasive methods such as negotiations rather than resort to agitations or political bargaining based on his effective control of the Maharashtra Congress which was till recently a monolithic party organisation. Besides, any such bargaining based on threats to withdraw support to the Union Government might have proved effective in the days im-

mediately after the split in the Congress when Indira Gandhi had not consolidated her position both within and outside the party. Now it is more difficult to give such a threat as, at least, 10 to 12 Congress(R) Members of Parliament from Maharashtra are likely to place their loyalty to Indira Gandhi above their loyalty to Chavan or the MPCC.

The opposition parties can exploit this political situation to their advantage but their capacity to do so is also limited because the regional branches of almost all these parties are forced to advocate a militant line of action which is sure to result in clashes within each party. However, a party like the Peasants and Workers' Party or a purely regional organisation like the Shiv Sena can, without any inhibition, adopt a militant posture. At one stage it did appear that an alignment of the PWP, which has a stake in the future of Belgaum city, with the Shiv Sena would release a potent force which the Union Government might be forced to reckon with, but the PWP moved away from the Shiv Sena which suddenly seemed to have lost interest in the border dispute. Such developments have inevitably led to an overwhelming sense of despair among the Marathi-speaking people in the disputed areas, many of whom feel that they are being deserted by the Maharashtra leaders who do not mean what they say. In fact, it is doubtful whether the intense feelings of the people in the border districts like Sangli, Kolhapur and Sholapur are shared by the Marathi-speaking people from the other areas such as Vidarbha.

During the second week of August the non-gazetted employees of the Maharashtra Government succeeded in paralysing the Government completely

NEPAL

A Wary Thanks

AFTER the long talks between New Delhi and Kathmandu the Kosi project has at last been commissioned. A fortnight ago, the turbulent Kosi waters were released into the main Chatra Canal by Nepal's Irrigation Minister, Navraj Subedi. The buttons of the regulator were pressed to the chanting of vedic hymns at a colourful function at Chatra. Speaking on the occasion, the Indian Ambassador, Raj Bahadur, described the construction of the Chatra Canal as one more link in the age-old friendship between the two countries. In response, the Nepalese Irrigation

Minister, Subedi, offered a very unefusive thanks. Others present were ex-Prime Minister of Nepal, Matrika Prasad Koirala, Director of Indian Co-operation Mission, Rajeshwar Prasad, and hundreds of people from the adjacent Terai townships and villages. The difference in tone between the speeches of the Indian Ambassador and the Nepalese Foreign Minister was not accidental. It was, in fact, an index to the difference in attitude of the two countries towards such projects today. While New Delhi imagines that, through such projects, it is cutting a deeper niche for

DISPLAY OF FORCE

The Government has added fuel to the fire of growing discontent by promulgating an ordinance which enables it to prohibit strikes in "supplies and services" declared "essential services" by a gazette notification. The wide powers assumed by the Government under the ordinance reveal its aim to crush the Confederation of the employees and, hence, have been promptly condemned by all trade unionists. Such a display of brute force may not always succeed and even if it succeeds in preventing the employees from resorting to the legitimate weapon of a strike, its effects on the morale of the employees will surely be disastrous. One can only hope that better sense will prevail and instead of unnecessarily making it a prestige issue, the Government will settle the dispute with its employees by negotiating with their leaders.

itself in Nepal's system of foreign affections, Kathmandu has all along been inclined to see ultimate motivations of self-interest and superiority in India's assistance projects. It is nevertheless true that, the new Canal will help the people of the area to use the waters of the Kosi constructively, where formerly its floods were a threat to life and crop.

Government of India has been co-operating with Government of Nepal since 1951. Nepal, with its approximately 10 million people, had remained almost sealed off from the outside world till 1951-52. Then, the construction of the air strip and airport at Tribhuvan in Kathmandu, with Indian aid, made the country more quickly and easily accessible. Over the years, Indo-Nepalese co-operation grew in volume and coverage and a full-fledged Aid Mission — now called the Indian Co-operation Mission — was set up in 1954 to organise, co-ordinate and administer the Indian aid programme in the kingdom. The aid programme includes provision of infrastructure facilities such as transport, communication, irrigation and power; agriculture and industry; social welfare, schemes in the field of health, education, and schemes for manpower training.

Nepal is, of course, predominantly agricultural. About 95 per cent of the kingdom's population lives in its villages, and national income is derived largely from agriculture. Regular irrigation facilities and assistance for improved methods of cultivation are, therefore, the quickest way to increase the income of the vast majority of the Nepalese people. India's assistance has largely gone towards improving irrigation facilities to the agriculturist. Under the Canal and Drinking Water Supply Board's programme, which is entirely financed by India, 15 irrigation schemes to irrigate over 110,000 acres of cultivated land, were taken up. All the 15 projects have been completed. India's commitment to these projects will have been about Rs 2.2 crores.

The major irrigation project in Eastern Nepal — the Chatra Canals project — was undertaken in addition to all this. The project is part of the Indian aid programme "to supplement the efforts of the Nepal Government to develop the kingdom's economy and to raise the living standards of the people". Calculated to irrigate 2.12 lakh acres annually in the Saptri and Morang districts of Nepal, this scheme is hopefully regarded by India as a living symbol of the traditional friendship bet-

ween the two neighbouring countries.

Now, the Kosi, which in the past has been notorious for its vagaries and destructive propensities and has reduced vast tracts of fertile land into barren arid regions, will be harnessed by the Chatra Canal to cultivate new life on these tracts. The experts have calculated that, following availability of irrigation waters from the Chatra Canals, crop production per year would increase to the extent of 39 lakh maunds valued at Rs 4.75 crores. With the introduction of this irrigation programme, moreover, the lot of the 480 villages in the command area, will considerably improve in a few years. In fact, this region may actually turn into a big granary for Nepal.

Two previous schemes — viz, the Chatra Barrage Scheme and the Belka Dam Scheme, drawn up by the Central Water and Power Commission in 1950 and 1951, respectively, which had planned to provide for annual irrigation of 1.82 lakh acres in the Morang districts of Nepal — fell through, however. The present Kosi Project, which was also formulated by the CWPC and sanctioned for execution by the Union Government in December 1953, had been framed to provide immediate relief to the victims of the almost unending annual Kosi floods in Bihar and Nepal. It included a preliminary report on the Chatra Canals scheme too. A Chatra Canals Division was set up in 1956 to carry out detailed investigations, and a scheme for irrigating lands in the Morang and Saptri districts of Nepal was drawn up in 1958. Pending formal approval of the scheme, the Union Government authorised the Government of Bihar State, in May 1960, to spend on the preliminaries of the work. The scheme, then subjected to scrutiny by experts, was altered regarding the alignment of the Canals, and there was consequent revision of the initial estimate in November 1960. The Union Ministry of Irrigation and Power accorded administrative approval to the revised scheme, which was estimated to cost Rs 4 crores. In August 1961, Government of Nepal permitted construction work to be taken up. The formal Chatra Canal Agreement between India and Nepal was signed on November 2, 1964. The length of the main Canal is to be 35 miles, the length of distribution 165 miles, the gross command area 2.76 lakh acres, the culturable commandable area 1.84 lakh acres, the annual irrigation is to extend to 2.12 lakh acres. Recently, at the request of the Nepalese Government, Government of

India agreed to construct minors, having a discharge of between 25 and 5 cusecs, at an estimated cost of Rs 37 lakhs (Indian currency). This will yield an additional annual production of about 39 lakh maunds of agricultural produce, valued at about Rs 4.75 crores.

The proposed Western Kosi Canal will provide irrigation to a gross area of about 66,000 acres. This proposed Western Kosi Canal consists of the main Western Canal, a pumped canal, and a renovated and extended existing Chandra Canal. The survey and investigation work on this scheme has already been completed. When executed, it should secure an additional annual yield of 12 lakh maunds of agricultural produce, valued at Rs 1.65 crores. However, though Government of India has agreed to all the conditions laid down by the Nepalese Government, the latter is not yet willing to give clearance to the execution of this scheme.

With the completion of the Kosi Barrage, it has become possible to provide all-weather communication between the western and eastern portions of the Nepalese terai. The only means of communication previously had been country boats, which were very risky during the flood season. Prior to the construction of the barrage, there was very little movement of goods across the river and the customs duties thus realised were very small. The construction of the Barrage has made possible an all-weather bridge connecting the two districts and the Anchal headquarters of Nepal — Biratnagar and Rajbiraj. The traffic between these two areas has considerably increased and the customs duty collected has gone up correspondingly.

The execution of the Kosi project has also opened up vast opportunities for employment. Many men have been trained in the process as mechanics, drivers, etc. Irrigated agriculture will open up further opportunities for employment in agriculture-based industries, which should come up with the use of the irrigated schemes. The local Nepalese in the Kosi project area in Nepal are already getting free medical treatment in the project hospitals and free education in the project schools — which will ultimately be handed over to Nepalese authorities after the scheme is fully completed.

A significant factor is the length of the Kosi river after it enters the plains near Chatra. It is about 30 miles in Nepalese territory and about 145 miles in Indian territory.

Prophets and Pirates

Nireekshak

WHY should a newspaper go to the trouble and expense of sending its own special representative to cover an international conference thousands of miles away from the place of publication? Quite obviously to give its readers the benefit of a first-hand account of the conference and the specialised knowledge of the reporter assigned to cover it. But since a first-hand account is usually available through agency sources, it is only individual specialisation that can make the exercise really worthwhile. I have been asking myself what is special about the special dispatches of the correspondents sent to Lusaka to cover the non-aligned summit conference, and I have drawn a blank.

There were at least four of them: Nihal Singh of *Statesman*, Dilip Mukherjee of *Times of India*, Batuk Gathani of *Hindu* and Prithvis Chakravarty of *Hindustan Times*. And they seem to have done nothing that PTI has not done better. Where they scored over PTI, of course, is in their final commentaries — or what passed for commentaries — on the conference. But such gems as "Lusaka has unquestionably given the non-aligned club a new lease of life" (Mukherjee), and "the Russians scored in Lusaka whereas the known supporters of Western positions on many issues could make only symbolic gestures" (Singh) could as well have been written from Connaught Place without making the journey to Africa.

Hardly more edifying were some of the reports. "The new element in the Zambian President, Mr Kenneth Kaunda's inaugural address today at the third non-aligned summit here is the special emphasis he laid on the need for setting up a permanent machinery for follow-up action on the conference decisions", wrote Chakravarty. If any reader succeeded in decoding this at the first try, that would be real news! I must refrain from reproducing more jewels of similar brilliance. No, the reporting of the Lusaka conference was uniformly dry, pedestrian and colourless. PTI cannot be accused of brilliance but its performance was at least adequate.

Editorial reaction however was more sophisticated than the reporting, often effusive. *Times of India* wrote

three editorials in a row — almost like a running commentary — while *Statesman* showed it could write about the conference every time the Prime Minister mentioned non-alignment. After saying on September 12 that "the non-aligned group can express an opinion if it can find one; it was never intended and consequently is not equipped to bring pressure on anyone", *Statesman* returned on September 15 to remind the non-aligned powers that "it is hardly appropriate for (them) to encourage the belief that Washington can be let off lightly", in Vietnam. Also, "have not the non-aligners anything to ask of the Vietcong and Hanoi?" *Times of India's* one great regret was that "the participants at the Lusaka summit have not made a serious effort to set at rest the popular misgivings regarding the relevance of the policy of non-alignment in the new context of the growing Soviet-American detente". Probably they didn't see any "detente"!

Indian Express pooh-poohed the whole thing as a "futile... and flamboyant exercise in summitry", while in the view of *Hindu* "the biggest achievement (of the conference) was that it met at all and transacted some business without floundering on the rocks of the participants' differences." However the *Madras* daily went on thereafter to draw quite the opposite conclusion. "All the talk of the non-aligned countries being one interdependent family", *Hindu* said, "can carry conviction only when each one of them brings to respect the interests of the others. Such is not the case now." *Free Press Journal* solemnly opined that the "Lusaka conference may come to be regarded in time as an important turning point in the road of development" of the non-aligned countries. Because, said the paper, the non-aligned countries have agreed "for the first time" to "align themselves with one another in the quest for speedy development of their long-exploited, and therefore retarded, national economies".

Some others were not quite so optimistic about the results of the conference as the prophet of Dalal Street. *Mail* thought, for example,

THE FOURTH ESTATE

that "the only constructive resolution (adopted by the conference) related to economic co-operation". But then it was hardly necessary "to hold a summit meeting to discuss this". And according to *Hitavada* there was little more than a declaration of "good intentions" at Lusaka. "Of course declaration of good intentions has its own value and it is only from that point of view that one must appreciate the achievements of the Lusaka conference".

It was however not the Lusaka conference that kept the Press on its toes, so to speak, during the period under review; it was the hijacking of civilian aircraft in West Asia. And it was *Indian Express* which made the most of this news-break. The Bombay edition of the *Express*, particularly, laid out the news on its front page almost as though it were bringing out, not its normal editions, but special hijacking editions. A very competent professional job was done by the paper, I thought, though the tendency to over-play the hijackings had the inevitable effect of pushing out other equally important news from the front page. For at least three days, from September 11, *Express* gave one the impression that there was nothing going on in the world except hijackings and (Gujarat) floods!

Coming down to earth from summit peaks and skies, what is one to make of the new *Times Weekly*? If there is a design behind it, it has escaped this reviewer. *Times of India* suspended publication of its former Sunday supplement on the plea of newsprint shortage. Sometime later, however, the cartoons of one section of that supplement, some of which were in colour, began appearing in the main Sunday edition of the paper in black and white. Now we have *Times Weekly*, including cartoons in black and white. No doubt a little more newsprint has become available since the suspension of the supplement. But beyond putting this to use and reviving the old supplement, what has happened? The *Weekly* is the same old mixture in a slightly different bottle; there is not even a little more of the mixture than before. Perhaps it will develop some special characteristics of its own to justify the new name and the additional six paise that goes with it. And if and when that happens, I shall be glad to report it.

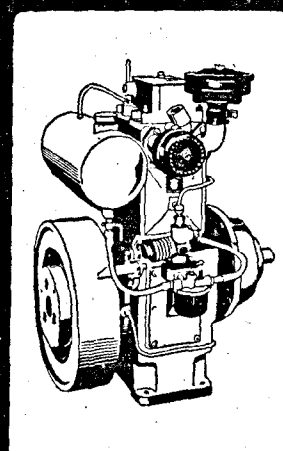
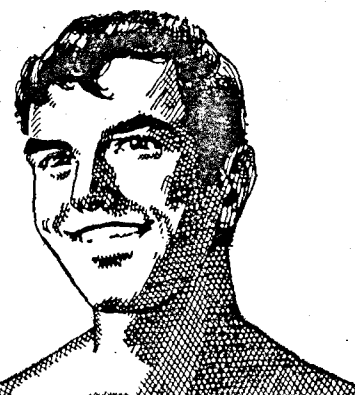
The wise farmer
depends on

EMBEE

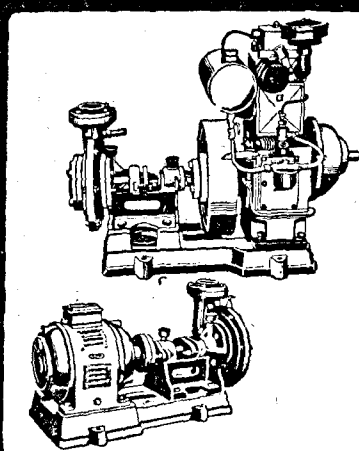
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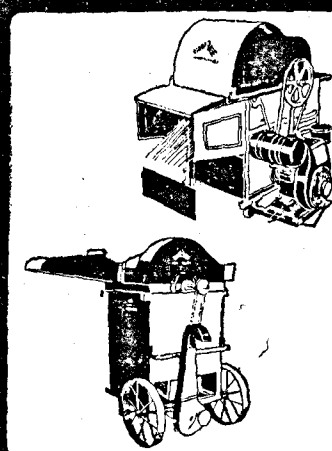
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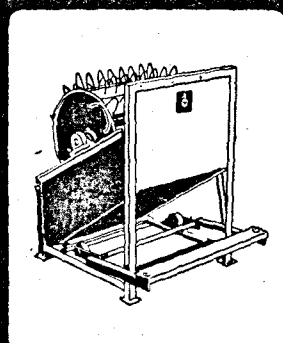
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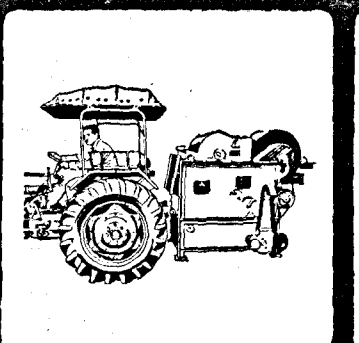
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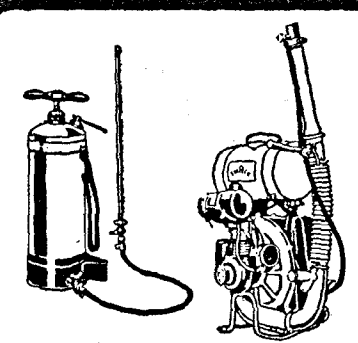
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MBE-15

REVIEW OF

AGRICULTURE

September 1970

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Review of Agriculture is published four times a year, on the last Saturday of March, June, September and December.

Manuscripts intended for publication should reach the Editor at least six weeks ahead of the date of publication.

Setting the Perspective

DOUBTS had been expressed about the need to appoint a National Commission on Agriculture since a number of committees and study groups, besides the Planning Commission itself, had already examined various aspects of the agricultural problem and indicated lines for action. However, now that the Commission is a *fait accompli*, it is more relevant to identify the pivotal, long-term agricultural problems with which it should concern itself. The appointment of C Subramaniam, in whose time as Minister for Food and Agriculture the new strategy of high-yielding varieties was launched, as chairman of the Commission may prove a right move. Agricultural change is intimately tied to the political interests of, among others, State governments; a purely technocratic approach to agricultural problems would, therefore, be doomed to failure.

To be effective, the Commission will have to demarcate the areas in which it has a contribution to make by way of assessing past accomplishments and setting forth a fresh perspective for the next 15 to 20 years. A thorough assessment of the new strategy of agricultural development will naturally come high on the agenda. True, it is only four years since the hybrid varieties made an impact on foodgrains production, yet this may be the most appropriate time to take a closer look at the HYV scene. For, while the position with regard to foodgrains is now relatively comfortable, it is not known to what extent the "green revolution", as distinct from the favourable weather conditions over the last three years, has contributed to this happy situation. Further, although the food situation may be better in terms of overall supply, achievements in terms of nutritional standards and consumers' preference do not stand on altogether firm ground. There are other long-term agricultural problems, too, which await solution. Rational lay-out of farm lands in the context of the predominance of small farmers, agricultural labourers, and the acute situation regarding unemployment and underemployment in the rural sector is one of them, and needs to be spelled out with a view to combining agricultural growth with social justice. This will be no easy task as, at the same time, incentives have to be worked so that the rate of growth keeps up with the technological and physical potential. Large farms, use of tractors and other farm machines, and specialisation of certain areas for certain crops may fall in the category of options that have to be pruned. Irrigation, as a significant input for agricultural development, is another aspect that merits special attention from the Commission. With the introduction of the high-yielding varieties, the concept of irrigation has had to be redefined in terms of intensive water management and water administration at prescribed periods of crop growth. Assessment of irrigation potential against the requirements of the new hybrid varieties, development of small intensive irrigation schemes, and development of dry farming in regions of very limited water resources, are areas in which the Commission needs to sketch new perspectives. Faster increase in the yield of cash crops — mainly, cotton, jute, tea and oilseeds — is acutely necessary, if these crops and the industries based on them are to be economically viable in the long run. No breakthrough is yet in sight here, and the Commission may have to indicate the kind and scale of research and outlays that will be needed to put the cash crop economy on its feet.

The achievement of each goal in fact depends largely on the administrative set-up devised. In our enthusiasm to achieve faster progress, we have in the past made institutional arrangements which were mostly departmental in nature. This has injected bureaucratic procedure into developmental work often at higher cost and with additional problems. Institutional arrangements such as the co-operatives have suffered due to bureaucratic interference and political bossism. The history of land reforms is another stark reminder of how half-hearted political support to national goals and lack of sincere implementation can nullify the gains expected.

The quality of the Commission's work will, therefore, be judged not by the comprehensiveness and the voluminous detail of its coverage — in which it could get lost, as did the Administrative Reforms Commission through its many independent committees, with consequent harm to its overall vision and sense of direction — but by the (1) concrete measures and national reallocation it envisages and (2) the administrative/institutional machinery it recommends for the purpose. This, no doubt, calls for a detailed examination of issues: To what extent has lack of funds been responsible for slow development? To what extent have inappropriate administrative and institutional arrangements led to underutilisation and misutilisation of available funds? Have the incentives provided to agriculturists been adequate? What should be the relative role of the States and the Centre in agricultural development and should agriculture remain a State subject? Should there be separate corporations, like the Rural Electrification Corporation, to attend to particular agricultural problems or should there be a total approach?

Disparity in Income in Context of HYV

B K Chowdhury

It has been suggested that the high-yielding varieties programme not only leads to and sustains unbalanced growth among the different regions but also widens the income disparity among the farming population of the same region as between the large and small farmers. This happens because the HYV programme favours the promising and developing regions in which the necessary infrastructure for steady growth already exists, and because, within the regions thus marked for growth, the small farmers are less well-endowed compared to the large farmers to take on the new technology.

The aim of this paper is to examine two important hypotheses, using empirical data collected from a district in West Bengal and a district in Bihar: First, whether the participation of small farmers in the programme is less than that of large farmers, and if so to what extent; Secondly, whether the differences in farm size tend to widen disparities in farm income among farms of varying sizes, and if so in what magnitude.

It is found that, the participation of small farms in the HYV programme is less than that by the large farms, but that the small farmer's effective participation is no less satisfactory than that of the large farmer. At the same time, however, even at the present stage of implementation, the programme does further widen the gap in farm incomes, though the gap varies considerably as between the two crops, paddy and maize.

Of the many valid criticisms levelled against the intensive approach of the HYV Programme the most serious one is that it tends to aggravate the existing disparity in incomes in society. The social tension and the upheavals that are very much evident at the present time are said to be manifestations of the great inequality in incomes. The problem has become so acute that many remedial measures have been proposed in the Fourth Five-Year Plan. Any society aiming at a reduction in income disparity can hardly afford to have a programme which directly or indirectly worsens the inequality. Yet, by its very nature, the HYV Programme cannot but do the same. It favours the promising and developing regions where the necessary infrastructure for steady growth has already been built up. The programme helps a developing region to be further developed, without any corresponding plan to compensate or uplift a backward region.

The programme, it is suggested, not only leads to and sustains unbalanced growth among the different regions, it also creates and widens the income disparity among the farming population in the same region as a result of the unequal sharing of benefits as between the small and large farms. "Any HYV Programme, in order to be equitable, should attempt to benefit both small-scale as well as large-scale producers. Once such a programme has been initiated and the most responsive areas selected, the small-scale farmers should share the benefits to be derived therefrom. The need for more food may justify inequalities in the short term, but unless this is recognised and measures taken so that the programme benefits all farm people at a later stage public expenditure will continue largely on be-

half of the prosperous producers".¹ The experience of Mexico in the course of implementing such a programme should put us on our guard against such a disaster.

It is conceivable that small farmers are slow to accept a new programme like the present one. The high risk and uncertainty, large credit requirements, ignorance of the new technology, unavailability of inputs, absence of controlled irrigation are some of the factors which discourage small farmers from participating in the programme — at least in the initial stages. The large farmers, on the other hand, being less handicapped by these factors, are able to increase their farm income considerably through greater participation in the programme. The net result is that the disparity in incomes as between the small and large farmers is widened instead of being reduced.

Even assuming that, the extent of participation in the programme and the adoption of improved technology are more or less the same by the small and the large farms, the extent of increase in farm income is bound to be widely different — mainly due to the difference in the size of farms. The farm income from a large farm is likely to increase much faster than that from a small farm.

THE HYPOTHESES

The objective of the paper is to examine two important hypotheses using empirical data. First, whether the participation of small farmers in the programme is less than that of the large farmers and, if so, to what extent the small farmers lag behind their larger counterparts. Second, against the background of the HYV Programme, whether differences in farm size tend to widen the disparities in farm income

among farms of varying sizes and, if so, what is the magnitude? A related question is whether the undesirable effect, if any, of the programme on the distribution of income among the farming population, can be avoided.

The data collected by the Agro-Economic Research Centre, Visva-Bharati in the course of its evaluation studies on the HYV Programmes in the districts of Birbhum and Saran in West Bengal and Bihar, respectively, in the crop year 1969 have been pressed into service to test these hypotheses.² The HYV Programme was introduced in both districts in 1966-67. The studies were taken up in two good blocks of the districts, the criteria of selection being the quantity of seed distributed and the area put under such seeds in the previous year. The ultimate unit of study was the sample farms which were selected at random out of two categories of farms, viz, those who participated and those who did not participate in the programme. The number of participant and non-participant farms in each district was 60 and 40, respectively. The crop studied in Birbhum was paddy and that in Saran hybrid maize.

LEVEL OF PARTICIPATION

The level of participation in the programme in the selected villages of the districts is shown in Table 1. The overall participation is very encouraging in Birbhum where four out of five farmers took up HYV crop. In Saran, the participation does not appear to be as spectacular — only one in three participated — as in Birbhum. The low participation in Saran was due to lack of irrigation facilities and non-arrival of the hybrid seed in time. The participation in the pro-

TABLE 1: LEVEL OF PARTICIPATION IN HYV PROGRAMME, 1969

Size of Farms	Birbhum						Saran					
	Total Farms	Participant Farms		Area under HYVP (acres)	Per Cent of Area under HYVP to Total Cultivated Area	Per Cent of Distribution Total HYV Area	Total Farms	Participant Farms		Area under HYVP (acres)	Per Cent of Area HYVP to Total Cultivated Area	Per Cent of Distribution of Total HYVP Area
		Num-ber	Per Cent					Num-ber	Per Cent			
1	2	3	4	5	6	7	8	9	10	11	12	13
0.01- 2.50	96	75	78.1	33.23	24.7	10.89	189	28	14.8	17.05	30.6	12.49
2.51- 5.00	107	81	75.7	68.13	16.9	22.32	86	44	51.2	41.25	23.1	30.21
5.01- 7.50	41	34	82.9	34.86	13.7	11.42	37	19	51.3	32.25	22.8	23.61
7.51-10.00	28	25	89.3	34.60	13.7	11.34	27	20	74.1	17.45	9.2	12.78
10.01-15.00	10	9	90.0	17.18	13.9	5.63	17	9	52.9	20.55	18.4	15.05
15.01-20.00	9	9	100.0	31.71	19.9	10.39	3	2	66.7	4.00	10.7	2.93
20.01-25.00	5	5	100.0	35.50	28.4	11.63	1	—	—	—	—	—
Above 25.00	3	3	100.0	50.00	50.0	16.38	1	1	100.0	4.00	6.7	2.93
Total	299	241	80.6	305.21	19.6	100.00	361	123	34.1	136.55	18.1	100.00

gramme is definitely lower in the lower sized group of farms and it tends to increase with the increase in farm size. The trend is well-pronounced in Birbhum but in Saran, it is broken into two higher sized groups. Still it may be said that the data, in general, confirm the popular belief that participation in the programme by small farms is much less than that by the large farms; consequently the benefit derived by the former is much less than by the latter.

Mere participation in the programme, without reference to the area put under HYV crops, does not have much significance as the result of the programme depends more on the area put under HYV crops and its increased production rather than on the number of percentages of farms participating in the programme. From the area put under HYV crops in the different size groups of farms, it appears that the area under the HYV crops in farms cultivating upto 5 acres of land is quite considerable — being 33 per cent in Birbhum and 43 per cent in Saran. Since the distribution of farms is highly skewed the gain obtained from the HYV crops in the lower size groups of farms is widely distributed among a large number of small farms while the gain in the higher size groups is confined to relatively fewer farms. This naturally leads to further disparity in farm income.

The disparity is likely to get accen-

uated if the proportion of area put under HYV crop among the higher size groups is of the same or greater magnitude than that among the small size groups of farms. In Birbhum, nearly one-fourth of the cultivated area in the lowest size group has been brought under the HYV crop, but in the other contiguous size groups the extent declines considerably. This, despite the fact that in the highest size group the extent reaches its maximum of 50 per cent of the cultivated land. Thus, though considerable increase in farm income in the highest size group will lead to greater disparity, the increase in income in the medium sized farms is not expected to be too high. In Saran, the farms in the lowest size group have put nearly one-third of the total cultivated area under hybrid maize. In the preceding size groups the importance of hybrid maize declines consistently, so that, in the highest size group, the extent of hybrid crop is as low as 7 per cent of the total cultivated area. The increase in farm income in the medium and large farms is, therefore, kept at a low level since effective participation is rather low and the potentialities of the new variety in raising farm income remain largely unrealised.

If we examine the performance of the selected participant farms in respect of their farm size and the area devoted to HYV crops, we may have a

clear idea of the probable impact of the programme on the distribution of income among farms of varying sizes. The average farm size of the participant farms and the average area put under HYV crops are shown in Table 2. The observations made in respect of the villages hold equally true for the participant farms which were selected at random out of all the participant farms in the villages. The area put under HYV crops does not increase proportionately with the larger farm size — which has a depressing effect on the farm income of the large farms. The high potentialities of the programme in increasing the farm income cannot be fully realised by the large farms. The gap in income is not, therefore, widened to its fullest extent at the present stage of implementation of the programme.

To conclude, the participation by small farms in the programme is less than that by the large farms, but the former's effective participation is no less satisfactory than that of the large farms. John W Mellor of Cornell University, who made an intensive study of the problem, commented as follows: "In general, however, most of the available data indicate that where the high-yielding varieties have demonstrated their profitability over a period of two or three years the acceptance is as great among those with small holdings as among those with large holdings".³

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TABLE 2 : AVERAGE SIZE AND EXTENT OF HYV CROPS PER PARTICIPANT FARM, 1969

Size of Farms	Birbhum, West Bengal			Saran, Bihar		
	Average Size of Farm (acres)	Average Area per Farm under HY Paddy (acres)	Percentage of HYV Paddy Area to Average Size of Farm	Average Size of Farm (acres)	Average Area per Farm under Hybrid Maize (acres)	Percentage of Hybrid Maize Area to Average Size of Farm
1	2	3	4	5	6	7
0.1- 2.50	1.93	0.55	28.50	1.56	0.40	25.64
2.51- 5.00	3.91	0.96	24.55	3.74	1.01	27.01
5.01- 7.50	5.89	1.39	23.60	5.96	1.09	18.29
7.51-10.00	9.05	1.65	18.23	8.76	1.50	17.12
10.01-15.00	12.58	1.96	15.58	12.28	2.01	16.37
15.01-20.00	18.11	0.78	4.31	18.60	2.00	11.01
20.01-25.00	25.00	7.10	28.40	—	—	—
Above 25.00	33.00	16.67	50.52	60.00	4.00	6.67
Total	8.95	2.40	26.82	6.49	1.13	17.41

TABLE 3 : AVERAGE YIELD OF HYV CROPS PER ACRE (IN MDS) 1969

Size of Farms	Paddy, Birbhum		H-Maize, Saran	
	Yield per Acre	Increase (+) or Decrease (—) over the Lowest Group	Yield per Acre	Increase (+) or Decrease (—) over the Lowest Group
1	2	3	4	5
0.01- 2.50	42.04	100.0	24.44	100.0
2.51- 5.00	46.28	+110.1	25.60	+104.7
5.01- 7.50	37.99	— 90.4	29.16	+119.3
7.51-10.00	47.46	+112.9	29.50	+120.7
10.01-15.00	49.94	+118.8	30.95	+126.6
15.01-20.00	39.91	— 94.9	35.75	+146.3
20.01-25.00	49.83	+118.5	—	—
Above 25.00	47.30	+112.5	38.75	+158.5
Total	46.78	+111.3	29.01	+118.7

Where the profitability of the crops are still under doubt, and there are some real handicaps, the small farms lag behind their larger counterparts and among the early adopters they are less than proportionately represented in the programme.

DISPARITY IN FARM INCOME

The second hypothesis that, due to the HYV programme the farm size tends to widen the disparity in farm income as among farms of varying sizes may be valid on some assumptions. The assumptions are, first, that the proportion of area put under HYV crops should be the same, or larger, in the larger farms than that in the smaller farms. Secondly, the average yield per acre should be at least the same, or greater, in the larger farms than in the smaller farms. Thirdly, the additional cost in-

curred by the larger farms to obtain the additional yield should be less than the value of the excess yield from HYV crops. The programme tends to widen the disparity in farm income if these assumptions are partly or wholly valid.

We have observed that, in general, the proportion of land put under HYV crops is lower among the higher size groups of farms than among the lower size groups. The lower the proportion of such land the lower will be the farm income from the programme. Despite cent per cent participation in the programme by the larger farms the farm income of the larger farms can hardly reach its potentialities because of the low proportion of land devoted to the HYV crops. Since, however, the resource base of the large farms, particularly the land resource, is stronger even the low proportion of area put

under HYV crops by them results in larger absolute area per farm — which partly compensates for the low proportion of total land holding devoted to HYV crops.

Secondly, the prospect of the gap getting wider may materialise if the average yield per acre of the HYV crop is the same or higher in the larger farms than in the smaller farms. In the former case, the absolute area under HYV crops should, however, be higher in the larger farms. In the latter case, the higher yield per acre can easily make up for the loss, even if the absolute area under HYV crops in the larger farm is less than that of the small farms. The average yield of HYV crops per acre as obtained by the participant farms in the different size groups, is shown in Table 3.

YIELD PER ACRE

The average yield per acre of HYV paddy in Birbhum is the highest on the farms holding land between 2.51 to 5.00 acres, while the lowest yield is obtained on farms in the lowest size group. The yield per acre does not show any increasing trend with increase in farm size, though the yield in the higher size groups tends to be greater than that obtained in the lowest size group of farms. In Saran, the yield shows a consistently rising trend as the size of farm increases, so that the lowest and the highest yields are obtained in the lowest and the highest size group of farms, respectively. The higher yields in the larger farms may partly or wholly make up for the fact that the larger farms devote smaller proportion of acreage to the HYV crops, and the gap in farm incomes among farms of varying sizes might therefore still get widened. If, however, the smaller farms are enabled to get as good a yield as the larger farms through measures specifically designed for smaller farms, the disparity in farm incomes will undoubtedly be narrowed. This is by no means difficult to attain because the inputs required for the HYV crops are neutral to the scale of farming. Besides, the small farms have one special advantage, in that, they do not have to use much hired labour as the supply of labour is relatively abundant on those farms.

Thirdly, higher yield per acre in the larger farms does not bring in a larger net return — unless the value of excess yields is greater than the additional cost incurred. The larger farms incur a loss despite the high yield per acre if the additional cost incurred is larger than

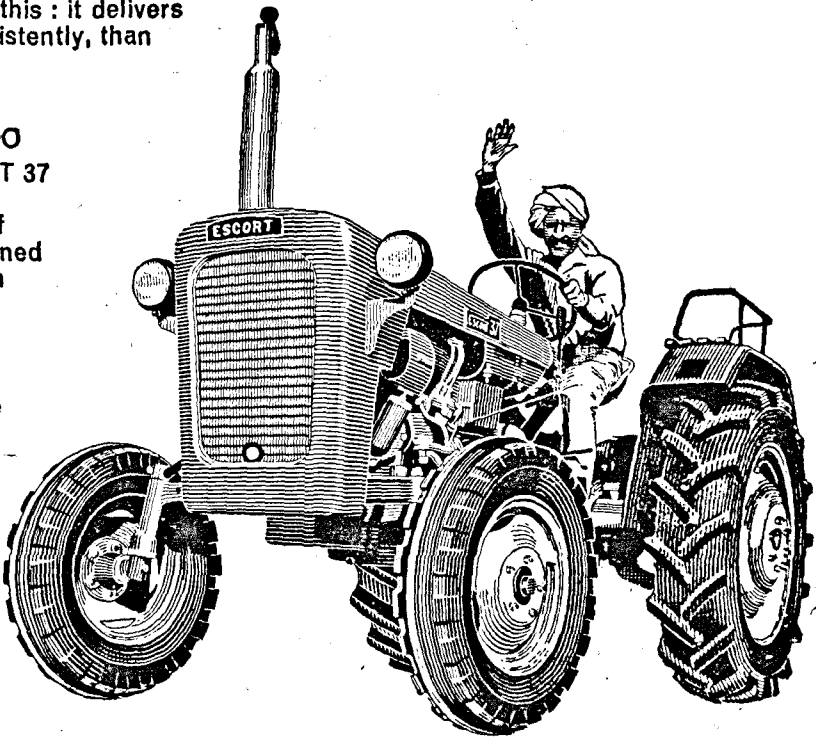
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TABLE 4 : NET RETURN PER ACRE OF HYV CROPS, 1969

Size of Farms	Birbhum						Saran					
	Excess Yield per Acre	Value in Rupees	Per Cent Increase over the Lowest Group	Extra Cash Expenditure for Excess Yield (Rs)	Per Cent Increase over the Lowest Group	Return per Rupee (Rs)	Excess Yield per Acre	Value in Rupees	Per Cent Increase over the Lowest Group	Extra Cash Expenditure for Excess Yield (Rs)	Per Cent Increase over the Lowest Group	Return per Rupee (Rs)
0.01- 2.50	19.43	468.65	100.00	181.56	100.00	2.58	9.63	240.75	100.00	116.32	100.00	2.07
2.51- 5.00	23.67	570.92	121.82	213.08	117.36	2.68	12.90	322.50	133.96	95.28	81.91	3.38
5.01- 7.50	16.02	386.40	82.45	204.58	112.68	1.89	15.30	382.50	158.38	81.56	70.12	4.69
7.50-10.00	24.61	593.59	126.66	263.38	146.06	2.25	16.17	404.25	167.91	127.43	109.55	3.17
10.01-15.00	26.99	651.00	138.91	299.39	164.90	2.17	—	—	—	—	—	—
15.01-20.00	—	—	—	—	—	—	—	—	—	—	—	—
20.01-25.00	—	—	—	—	—	—	—	—	—	—	—	—
Above 25.00	—	—	—	—	—	—	—	—	—	—	—	—
Total	24.23	584.43	124.71	339.26	186.86	1.72	15.68	392.00	162.82	110.78	95.24	3.54

the value of excess yield. Even where the extra cash expenditure per acre increases more than proportionately to the increase in the value of the excess yield the profit margin, or the net income, from the HYV crop tends to decline — and the possibility of widening the income gap is to that extent checked.

NET RETURN PER ACRE

Table 4 shows the net return per acre of HYV crops in 1969. The Table throws significant light on the performance of the programme in relation to the size of farms. First, the value of excess yield is always greater than the additional cost incurred per acre — indicating, in general, the profitability of HYV crops in both districts. Secondly, the net return per acre from excess production tends to increase with the increase in farm size, though in Birbhum the lowest return is obtained on medium-sized farms cultivating 5.01 to 7.50 acres of land. Similarly, the value of excess yield per acre has a tendency to rise with the increase in farm size with one solitary exception in Birbhum. Thirdly, the cash expenditure for the excess yield in Birbhum tends to rise much faster than the value of the excess yield with increase in farm size, indicating that, cultivation of HYV paddy in the larger farms is not as profitable as it is in the smaller farms. In case of hybrid maize in Saran the case is just the reverse where the value of excess yield per acre records faster

growth than the additional expenditure for the excess yield.

The point may be further clarified if the net return per additional rupee spent is taken into consideration. In Birbhum, the return per rupee is the highest on farms with 2.51 to 5.00 acres of land, and it declines with the increase in farm size indicating that the cultivation of HYV paddy is not as profitable on the larger farms as in the smaller ones. In Saran, the lowest return is obtained by the farms in the lowest size group and the return has a tendency to go up with increase in farm size. In hybrid maize, the higher the size of the farm, the higher is the return per additional rupee spent. It also appears that the return per additional rupee spent is much higher in hybrid maize than in paddy, which might have some policy implications.

NET RETURN PER FARM

The additional income from HYV programme for participant farms in Table 5 shows a clear picture about the disparity that has arisen among the different size groups of farms in the crop year 1968-69 as a result of cultivating HYV crops. The Table shows that in Birbhum the additional income arising out of the HYV crop does not proportionately increase with increase in farm size so that a six times increase in farm size does not generate six or more times increase but generates merely four times increase in farm income. In Saran, on the other hand, a four times increase in

farm size generates eight times increase in farm income.

It is, therefore, clear than even in the present stage of implementation, the programme further accentuates the gap in farm income in both districts though the magnitude of the gap differs considerably between the two crops, paddy and maize.

Whatever might be the criticism, real or apparent, against the HYV programme, its greatest merit lies in that it has immense potentialities to solve the food problem of the country in the shortest possible time. Scrapping of the programme at the present stage of food production is not, therefore, in the best interest of the country. However, the undesirable impact of the programme on distribution of income needs proper recognition, from the early stages, so that the problem of income disparity may be tackled through some specific measures.

In the medium and large farms, the whole or major part of the total income is generally derived from farming, while in the small farms farm income generally forms an insignificant part of total income, the major part being derived from the non-farm sector or from wages of agricultural labour. While the large farms can increase their farm income tremendously through intensive use of land and intensification of inputs, both modern and traditional, the small farms are generally deprived of similar opportunities to increase their income from farming due mainly to inadequacy

TABLE 5 : ADDITIONAL INCOME FROM HYV CROPS PER PARTICIPANT FARM, 1969

Size of Farms	Birbhum, West Bengal			Saran, Bihar		
	Value of Excess Yield (Rs)	Extra Cash Expenditure (Rs)	Additional Income from HYV Paddy (Rs)	Value of Excess Yield (Rs)	Extra Cash Expenditure (Rs)	Additional Income from Hybrid Maize (Rs)
0.01- 2.50	256.40	99.34	157.06	97.00	46.88	50.12
2.51- 5.00	550.90	205.58	345.32	326.25	96.41	229.84
5.01- 7.50	537.15	284.37	252.78	415.25	88.52	326.73
7.51-10.00	980.72	435.10	545.62	606.50	191.15	415.35
10.01-15.00	1274.26	586.06	688.22	—	—	—
15.01-20.00	—	—	—	—	—	—
20.01-25.00	—	—	—	—	—	—
Above 25.00	—	—	—	—	—	—
Total	1401.13	813.32	587.81	442.75	125.14	317.61

of land, insufficiency of credit, absence of irrigation facilities and the high risks involved in the programme. It is, therefore, imperative that, not only should the present obstacles to cultivating the HYV crops be removed as far as possible, but that new opportunities be created for small farms to increase their total income so as to narrow down the income disparity even completely in ideal conditions.

PROGRAMME FOR SMALL FARMS

From the studies of the programmes in operation, and the arrangements provided for the supply of credit and necessary inputs in the two districts, it is observed that, the facilities provided by Government and other institutions are extended to all farms irrespective of their size and the small farms do not suffer from any discriminatory treatment. Some procedure has been laid down which has to be observed by those who would like to use the facilities. There is, therefore, no bar or discrimination acting against the small farms as compared to the large farms. Besides, empirical evidence is that small farmers are no less progressive than the large farmers in adoption of modern inputs and technology. Despite these facts, the performance of the small farms is not creditable on yield and net return per acre. The general programmes, like IADP or HYVP, appear to have failed to solve the problems of small farms. There is, therefore, a strong reason for evolving a special programme dealing only with the small farms — their problems and remedies.

A special programme for small farms would, first of all, require a clear idea about the size of farms which the programme is expected to serve and the level of income to be attained by them. Though it is difficult to define small farms and any definition is likely to be somewhat arbitrary, it is possible objectively to draw a line between the small and large farms through a carefully planned research study. Such a study will not only throw light on how to identify small farms which can be developed into viable units with a desired level of living but will also help to find out the major or minor obstacles that stand in the way of an efficient functioning of these farms and the remedial measures needed to remove the obstacles.

The most obvious way to increase the income of small farms is to intensify the use of land through a proper combination of modern inputs and technology, the scope of which is however limited and to increase the total income by providing larger employment in farm and non-farm activities. Since agricultural wage forms a significant part of the total income of small farmers the HYV programme offers great potentialities for increasing the income of small farmers by providing greater employment as well as by achieving higher wage rate as a result of the heavy demand for agricultural labour. The disparity in income in the farm sector may be further reduced if the programme is implemented quickly, efficiently, and on a large scale. For then the price of the crop may decline due to the greater

production and this will ultimately result in lower farm income for the large farms and in higher real income for the small farms.

Other avenues open to small farms may be introduction of new enterprises such as dairy, poultry, vegetable farming, pisciculture, and the like. Such ventures may, in the beginning, prove somewhat risky because of unfamiliar techniques and inadequate inputs, but with proper training and assured supply of needed inputs the small farms can considerably increase their income, so that, the problem of disparity in income generated through the HYV programme may not cause undue anxiety within society and halt the progress in full implementation of the HYV programme.

Notes

- 1 "High-Yielding Varieties in the Strategy of Development" by Sherman E Johnson and John W Cous-ton, *FAO Monthly Bulletin of Agricultural Economics and Statistics*, Volume 19, February 2, 1970.
- 2 A study of HYV Programme in the District of Saran, Bihar with reference to Hybrid Maize (Kharif) 1968-69, and a study of HYV Programme in the District of Birbhum, West Bengal with reference to Kharif Paddy, 1968-69. The reports were issued by the Agro-Economic Research Centre, Visva-Bharati, Santiniketan.
- 3 "Report on Technological Advance in Indian Agriculture as It Relates to the Distribution of Income", by John W Mellor, p 7.

Shree Digvijaya Woollen

SHREE Digvijaya Woollen improved profit-margins in the year ended March 1970. It earned a gross profit of Rs 39 lakhs on sales of Rs 185 lakhs, against Rs 40 lakhs and Rs 232 lakhs, respectively, in the previous year. Net profit, however, was almost unchanged at Rs 13 lakhs to cover equity distribution raised from 7.5 per cent to 10 per cent nearly 2.2 times. Net return on the total funds employed in business came to 8.3 per cent. The company exported goods worth about Rs 23 lakhs and has been accorded the status of a 'priority industry' for the current year. With the raw materials already in hand and to be imported against exports of finished products and with the quantities allowed under the actual users' licences for April-September 1970, production is expected to be maintained at a 'satisfactory level'. Owing to non-availability of import licences, no further progress could be made in modernising the mill's plant and machinery.

Concentration Ratio of Operational Holdings
Its Pattern and Variation

P K Mukherjee

The structure of agrarian economy, as brought out by the land distribution pattern, is distinctly different in the paddy areas from that in the wheat areas. Within a State there is no significant variation in the pattern.

However, there is significant difference between the pattern of individual States. While, on the one hand, the average village-wise concentration ratios, based on the size of operational holding, is higher in paddy areas than in wheat areas, there is, on the other hand, lesser variation in inequality among villages in terms of co-efficient of variation in paddy areas than in wheat areas.

The distinctive difference in the average of concentration ratios at the block level for the country as a whole is mainly accounted for by the inter-State variations in the land distribution pattern, particularly for the wheat areas.

IT is a common belief that since the distribution of owned land holding in Indian villages is very uneven and skewed in favour of large farmers, there is an urgent need for effective implementation of a land reform programme and also for the initiation of special development programmes for small and marginal farmers. While many empirical studies have provided adequate evidence in support of the above belief and the need for consequential policy prescriptions, the analysis in such studies has often been lopsided giving undue emphasis on the emotive aspects of land distribution and ownership. In very few cases, have productivity considerations been recognised or given due emphasis. Already many researchers including both academicians and 'career' economists have started harping on the theme of inequitable distribution of the fruits of new technology in agriculture amongst the different classes of the farming community mainly on the basis of imperfect land holding distribution. Though a few of them still hold fast on the immediate implementation of 'land-to-the-tiller' programme, a large number is veering round to the view that

what is most important in terms of priority is to ensure security of tenure and fixation of fair rental for the tenants.

The real situation is that a fair proportion, if not the majority in some areas, of the farmers are both owners and tenants at the same time. Whatever may be the pattern of ownership holding, any farmer would like to have, under his control and with his present resource endowment, an operational unit which is more or less economically viable. It is because of these considerations that in our studies on the high-yielding varieties programme, we have divided, for analytical purposes, the entire sample of farmers into two groups: mainly owners and mainly tenants, the distinction being whether the farmer owns or has rented in a major portion of his operational holding.

If the concept of operational holding defined as above is accepted as a realistic one for most analytical purposes, it may be worthwhile to analyse the variation in the pattern of distribution of operational holding between villages, blocks and States. In this context, it is also held that the distribution is as un-

even as in the case of owned holdings and skewed in favour of large farmers. Secondly, the pattern of uneven distribution of land holding is dissimilar not merely between different States but even between villages and blocks within the same State boundary. Finally, the inference is drawn that, due to non-homogeneity in the pattern of land distribution, it is unscientific and incorrect to draw any firm conclusion on the basis of data collected through a sample survey study with a restricted sample size. It may not also be appropriate, perhaps, to aggregate the data pertaining to the different villages in such a sample study. It will be my endeavour to cast some doubts on the above widely shared views regarding the pattern and distribution of land holdings in Indian villages. In fact, recently, in an attempt to find out a rational basis for aggregation of data collected in the evaluation studies of the high-yielding varieties programme, we started rethinking on the pattern of concentration of land holding of Indian farmers. In this paper, the data on operational holdings of all farmers in the selected villages have been analysed. The same analy-

TABLE 1: MEAN, STANDARD DEVIATION AND CO-EFFICIENT OF VARIATION OF CONCENTRATION RATIOS

Region/ Crop (1)	No of Villages		No of Farmers		Mean		S D		C V	
	67-68 (2)	68-69 (3)	67-68 (4)	68-69 (5)	67-68 (6)	68-69 (7)	67-68 (8)	68-69 (9)	67-68 (10)	68-69 (11)
<i>Paddy</i>										
(1) All-India	66	72	9694	10291	.496	.467	.107	.116	.216	.249
(2) AP	12	12	3290	2849	.557	.533	.094	.063	.169	.117
(3) Tamil Nadu	9	9	1679	1017	.468	.507	.087	.053	.185	.105
(4) W Bengal	9	9	617	852	.428	.404	.069	.086	.162	.213
<i>Wheat</i>										
(1) All-India	45	45	4747	4448	.401	.398	.106	.097	.265	.243
(2) Punjab	12	12	1126	1152	.321	.344	.052	.052	.161	.151
(3) UP	18	18	1783	1822	.446	.432	.089	.082	.200	.189

TABLE 2: RESULTS OF FISHER'S T-TEST BETWEEN MEANS OF VILLAGE-WISE CONCENTRATION RATIOS OF VILLAGES SELECTED IN 1967-68 AND 1968-69

For	Degree of Freedom	Fisher's t	Significant or Not*
<i>Paddy</i>			
(1) All	136	1.512	Not significant
(2) Andhra Pradesh	22	.704	—do—
(3) Tamil Nadu	16	1.080	—do—
(4) West Bengal	16	.611	—do—
<i>Wheat</i>			
(1) All	88	.138	Not significant
(2) Punjab	22	1.038	—do—
(3) UP	34	.478	—do—

* Means significant at .05 level of probability.

TABLE 3: MEANS, STANDARD DEVIATION AND CO-EFFICIENT OF VARIATION OF CONCENTRATION RATIOS

Villages For (1)	No of Villages (2)	Mean (3)	S D (4)	Co-efficient of Variation (5)
<i>Paddy</i>				
(1) All	138	.481	.113	.234
(2) Andhra Pradesh	24	.545	.081	.148
(3) Tamil Nadu	18	.487	.075	.153
(4) West Bengal	18	.416	.082	.197
<i>Wheat</i>				
(1) All	90	.400	.102	.255
(2) Punjab	24	.333	.053	.160
(3) UP	36	.439	.086	.196

sis may be attempted for the data on owned holdings.

I
Nature of Data and of Sample Size

The high-yielding varieties programme has been studied by the Programme Evaluation Organisation each year during the period 1967-68 to 1969-70. The main purpose of these studies is to assess the problems and prospects of the programme during the coming decade. A wealth of data on the agricultural, economic and administrative and organisational, including extension, aspects have been collected. The canvas for these studies had necessarily to be restricted to the selected sample areas both due to the fact that the programme was in its initial phase and also because of limitation of resources. The studies have been conducted for five crops, namely, paddy, wheat, jowar, bajra and maize. In this particular note, the data on the size of operational holdings of individual farmers for paddy

and wheat crops during the years 1967-68 and 1968-69 have been used. The analysis has been done both on an all-India basis and for some important States growing these crops. It may be appropriate to mention the size of the sample covered during these two years for these two crops — 15 blocks for each of the years 1967-68 and 1968-69 for wheat and 22 and 24 blocks respectively for 1967-68 and 1968-69 for paddy. As a complete frame of the blocks with the relevant details regarding targeted areas was not available, the sample of blocks had been selected in two stages. At the first stage, the requisite sample of districts for each crop-State combination had been selected with probability proportional to areas targeted for the relevant crop. The selection had been made by the method of systematic sampling with probability proportional to size.* At the second stage, one block had been selected from each of the selected districts with probability proportional to the area targeted. The next stage of sam-

pling was the selection of villages. Three villages were selected in each sample blocks again on the same probability sampling basis. A census of all cultivating households was undertaken where some basic particulars including land holding and whether using the high-yielding seed variety or not, etc, were collected in the first instance. These data provided the frame for the selection of 10 participant farmers in the programme.

II
Concentration Ratios of Two Sets of Samples

We propose, in the first place, to examine statistically as to whether there is any real differences between the averages of the concentration ratios of the villages separately for the two years 1967-68 and 1968-69. The concentration ratio for a selected village has been calculated from the formula as follows:

$$C.R = \frac{n+1}{n} - \frac{2 \sum_{i=1}^n (\sum_{j=1}^i x_j)^*}{n \sum_{j=1}^n x_j}$$

where x_j = size of holding of the j-th cultivator household of the village
and n = no of cultivator households in the village
 x_j 's are arranged in ascending order of size)

Table 1 shows the mean, standard deviation and co-efficient of variation of the village-wise concentration ratios for paddy and wheat villages separately for 1967-68 and 1968-69.

* This formula has been derived, for the specific purpose of calculation of C R from the data of the individual farmers, from the formulae generally used. It can be derived from both the formulae given below:

(i) C R from grouped data
$$C.R = 1 - \sum_{i=1}^n (p_i - p_{i-1}) (q_i + q_{i-1})$$

where $p_i = \sum_{j=1}^i P_j$; $q_i = \sum_{j=1}^i Q_j$
 P_j = No of farmers in the j-th group ÷ Total no. of farmers
and Q_j = Total operational holdings of farmers in j-th group ÷ Total operational holding of all farmers

(ii) Gini's Concentration Ratio. Further, in this derived formula the expression $\sum_{j=1}^i x_j$ refers to the cumulative total figures of holdings. For instance, if there are three farmers, there will be three cumulative totals and then, again, these cumulative totals will be added up. So 'i' represents first order of totals, and 'n' represents the second order.

TABLE 4: RESULTS OF 'F' TEST FOR BLOCK MEANS, SEPARATELY FOR 1967-68 AND 1968-69

Region/ Crop (1)	Degrees of Freedom		F		Significant or Not	
	67-68 (2)	68-69 (3)	67-68 (4)	68-69 (5)	67-68 (6)	68-69 (7)
<i>Paddy</i>						
(1) All India	21,44	23,48	4.353	3.067	Highly significant	Highly significant
(2) Andhra Pradesh	3,8	3,8	3.053	8.323	—	Significant
(3) Tamil Nadu	2,6	2,6	1.752	8.689	—	—
(4) W Bengal	2,6	2,6	10.121	3.825	—	—
<i>Wheat</i>						
(1) All India	14,30	14,30	3.616	2.946	Highly significant	Highly significant
(2) Punjab	3,8	3,8	1.052	4.890	—	—
(3) UP	5,12	5,12	1.063	1.272	—	—

The mean concentration ratio is higher in paddy villages than in the wheat villages for both the years. The highest average concentration ratio is in the paddy villages of Andhra Pradesh and the lowest in the wheat villages of Punjab. Taken as a whole, there is no marked difference in the degree of inequality of the concentration ratios between the paddy villages and wheat villages and between the two years. Apparently, however, it appears that the differences in the degree of inequality of the concentration ratios are present between the years for the paddy villages in the three States, namely, AP, Tamil Nadu and West Bengal. It will be interesting now to calculate Fisher's t to test the hypothesis of equality of means of concentration ratios of the two sets of sample villages — one for 1967-68 and another for 1968-69. The test will bring to light as to whether the two sets can be treated as belonging to the same 'population' or not. Table 2 gives the results of the test. The results show that the hypotheses of equality of means of concentration ratios for the two sets of sample, i.e, for 1967-68 and 1968-69, are not rejected either for paddy villages or for wheat villages. In all the five States also, there seems to be no real difference between the means of concentration ratios. These indicate that the two sets of sample villages can be treated as belonging to the same 'population'.

III
Concentration Ratios as between Villages, Blocks and States

In the following analysis, the data

for the two years have been aggregated and the relevant variations in the concentration ratios accountable by the location of selected villages within the blocks and the States are brought out with a view to throwing light on the basis for grouping the villages for the purpose of detailed analysis on some aspects of the programme. The analysis of variations in the village-wise concentration ratios has been carried out on the assumption of normality in the distribution.
The mean, standard deviation and co-efficient of variation of the concentration ratios for the total number of villages selected in the two years, 1967-68 and 1968-69, are given in Table 3.
It has been stated earlier that the overall absolute inequality judged by the (mean) concentration ratios is greater in paddy villages than in wheat villages. But relative variation in inequality among wheat villages judged in terms of co-efficient of variation is

somewhat greater. Further, the hypothesis of equality of the means of concentration ratios between groups of paddy villages and wheat villages for the two-year aggregated data was tested and the result shows highly significant difference. In general, in areas where the concentration ratio is high, the inequality in the concentration ratio amongst the villages is not comparatively high.
Further, to test the hypothesis of equality of means of concentration ratios at the block level, the value of 'F' has been calculated. For the purpose, within block variation has been taken as error. The results are shown in Table 4. The results show that in almost all cases (except one), there is no significant difference in the concentration ratios of block within individual States. However, when villages are grouped by blocks across the States, the block means of concentration ratio appear to be statistically significant. This result

TABLE 5: RESULTS OF FISHER'S T TEST, FOR STATE MEANS SEPARATELY FOR 1967-68 AND 1968-69

For (1)	Year (2)	Degree of Freedom (3)	Fisher's t (4)	Significant or Not (5)
<i>Paddy</i>				
(1) AP and Tamil Nadu	1967-68	19	1.968	Not significant
	1968-69	19	0.889	—do—
(2) Tamil Nadu and W Bengal	1967-68	16	1.031	—do—
	1968-69	16	2.858	Significant
(3) W Bengal and AP	1967-68	19	3.075	Highly significant
	1968-69	19	3.511	—do—
<i>Wheat</i>				
(1) Punjab and UP	1967-68	28	4.223	Highly significant
	1968-69	28	3.315	—do—

may be partly due to the fact there are significant differences among States in respect of inequality, and, partly due to the fact that the number of villages, blocks and farmers are not the same among States.

The above results of the analysis of variance prompts one to probe further so as to know whether the means of the concentration ratios at the State level are significantly different or not. In view of the small number of selected villages in the majority of the States, this part of the analysis is restricted to the States of Punjab and UP for wheat and Andhra Pradesh, Tamil Nadu and West Bengal for paddy. Fisher's *t* has been calculated to test the hypothesis of equality of State level means between a pair of States. The results are given in Table 5. The highly significant difference between the State level means of concentration ratios of Punjab and UP for each of the years 1967-68 and 1968-69 leads to the conclusion that the distributive pattern of agricultural land in Punjab is at variance from that in UP. The same conclusion is applicable to

the paddy areas between the States, Andhra Pradesh and West Bengal. On the other hand, it can be said that between Andhra Pradesh and Tamil Nadu there is no qualitative distinction in the land distribution pattern. As between West Bengal and Tamil Nadu, one is not sure as to whether the differences between the character of land distribution definitely exist or not.

To sum up:

(i) The structure of agrarian economy as brought out by the land distribution pattern is distinctly different in the paddy areas from that in the wheat areas. It has been observed that within a State, there is no significant variation in the pattern as revealed from the block means of concentration ratios. However, there exists significant difference in the pattern of individual States. Within the paddy areas, the distributive pattern of agricultural land in West Bengal is at variance from that in Andhra Pradesh. The same conclusion is applicable for the States of Uttar Pradesh and Punjab within the wheat areas. Finally, on the one hand, the average of the village-wise concentration ratios based on the size of opera-

tional holding is higher in paddy areas than in wheat areas, but on the other, there is lesser variation in inequality among villages in terms of co-efficient of variation in paddy areas than in wheat areas.

(ii) It will be quite appropriate and scientific to undertake detailed economic analysis of the data from the two separate samples selected in the years 1967-68 and 1968-69. Further, it will also be statistically permissible to aggregate the data for the two years since the test has shown that the two sets of sample villages belong to the same 'population'.

(iii) Taking the data for the same year, it will be quite appropriate to aggregate these at least at the block level. In fact, it may be possible even to aggregate the data for all the blocks within a State and carry out the comparative analysis between States. The distinctive difference in the average of concentration ratios at the block for the country as a whole is mainly accounted for by the inter-State variations in the land distribution pattern particularly for wheat areas.

Is Inadequacy of Institutional Credit a Problem in Changing Agriculture ?

B M Desai

D K Desai

An earlier study had indicated that farmers tend to substitute commercial bank credit for their own funds and/or for other sources of finance, and that this substitution has no significant impact on farm production.

This article is therefore based on the connected question: "Is inadequacy of the existing institutional credit facilities a problem in changing agriculture?". The question is important because of the widespread notion that inadequacy of credit is a serious bottleneck in the adoption of the new technology.

The second study indicates that the existing availability of working capital, including credit, with the sample farmers is not inadequate to meet the requirements of technological changes in agriculture. There does, however, exist significant scope for the reallocation of existing credit facilities. Withdrawal of institutional credit from farmers who have adequate owned resources and its provision to the 'needy' farmers would greatly increase efficiency of credit use.

In fact, credit management involves proper scrutiny of individual loans and an emphasis by credit suppliers on their own developmental role. With a proper understanding of the developmental role and efficient allocation of credit, much could be achieved even with the existing resources of institutional finance.

THE two revealing conclusions of an earlier study on "Farm Finance by a Commercial Bank"¹ by the Indian Institute of Management were that under the existing farm practices (1) farmers had a tendency to substitute commercial bank credit (for crop production) for their own funds and/or other sources of finance, and (2) this substitution did not have any significant impact on farm production. In this context we thought we should examine the question: "Is inadequacy of the existing institutional credit facilities a problem in changing agriculture?"² The significance of examining this issue arises also because there is a widespread notion that non-availability of credit is one of the major bottle-necks in the adoption of new technology.

Before we spell out how we have examined this objective let us briefly discuss the procedure of determining credit needs followed by institutional agencies. The procedure followed by the co-operatives is primarily based on the crop-loan system as evolved by the Reserve Bank of India. The characteristic feature of this system is the scale of finance (divided into three components) per acre of different crops. The three components provide for cash as well as kind credit. They also provide for credit to adopt the recommended doses of fertilisers, etc, if the farmer wants to do so. However, many empirical studies³ show that the district central co-operative banks do not follow the guidelines provided for determining the scale of finance. Nevertheless, the crop-loan system advocates an aggregative yardstick of credit needs for diffe-

rent crops instead of assessing credit needs of an individual cultivator for the farm as a whole. Further, these aggregative yardsticks are not arrived at by a scientific inquiry taking into consideration the local variations. The yardsticks are prescribed sometimes for as wide an area as the whole State.⁴ As regards the procedure followed by commercial banks no definite approach and guidelines seem to have been yet evolved and the approach seems quite flexible.

We feel that the present procedure followed, particularly in the co-operative crop loan system is too aggregative and rigid and does not adequately take into account the availability of resources with farmers, their potentialities for increasing production and also their needs for development.

II

Scope and Methodology

Because of time and resource constraints the study was restricted to short-term or farm production credit needs alone. For the same reason, it was restricted to 48 farmers selected by a proper sampling design from four typical types of farming areas in a district (*viz.*, Baroda) in Gujarat.⁵

To examine the issue of inadequacy of existing credit in changing agriculture we have used the techniques of budgeting and programming at farm level. This method enabled us to study the credit use and to determine the additional credit demand compared to what was available at present at the individual farm level. The study of in-

dividual farms helped us in gaining insight into the requirements for different types of farming areas and also for different levels of technology in each type of farming area.

The different stages of changing agriculture for which the adequacy of present availability of credit is examined are as follows:

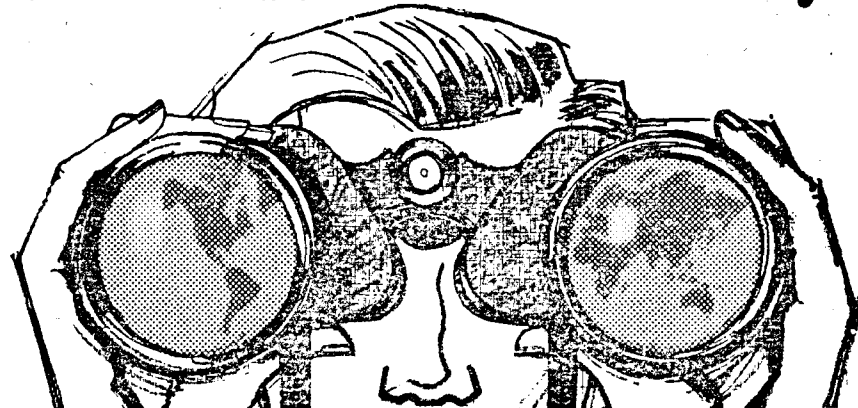
Stage 1 : The stage of existing farm management operations carried out by the sample farmers. This stage is called non-programmed (NP) conditions.

Stage 2 : The stage of optimisation of cropping pattern on a farm with the existing level of resources including available credit, within the framework of existing technology. This stage is called programmed conditions for existing technology (ET).

Stage 3 : The stage of optimisation of cropping pattern on a farm with the existing level of resources including available credit, within the framework of adoption of new technology. This stage is called programmed conditions for new technology (NT).

Stage 4 : The stage of optimisation of cropping pattern on a farm with expanded irrigation resources (but with the restriction of available credit and other resources), within the framework of adoption of new technology. This stage is called programmed condi-

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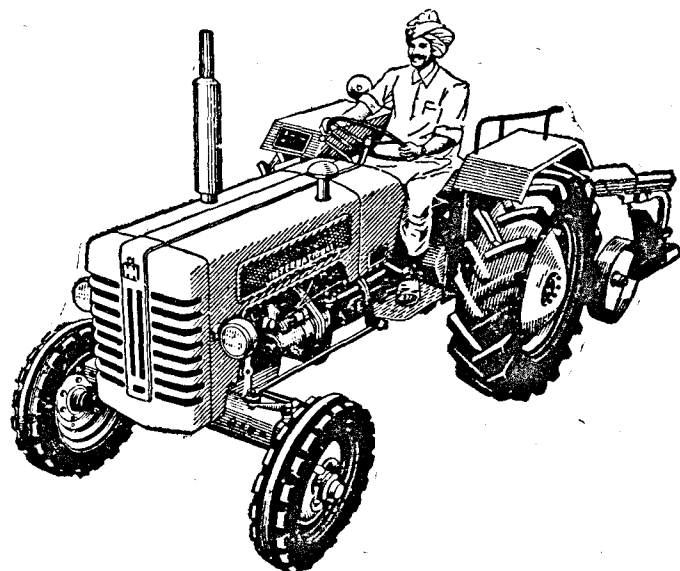


TABLE 1 : PER FARMER AND PER ACRE WORKING CAPITAL USED UNDER FOUR CONDITIONS

(Figures of percentages are for working capital under ET, NT and NTE to that under NP)

Details	NP	ET	NT	NTE
MDR				
No of farmers	24	24	24	24
Per farmer (Rs)	6324	6028	6426	6627
Per cent	100.0	95.3	101.6	104.7
Per acre (Rs)	576.7	547.7	590.4	609.1
Per cent	100.0	95.0	102.4	105.6
LDR				
No of farmers	24	24	24	24
Per farmer (Rs)	2314	2893	3070	3181
Per cent	100.0	125.0	132.7	137.5
Per acre (Rs)	155.2	193.5	205.8	217.0
Per cent	100.0	124.7	132.6	139.8

NP = Non-programmed.

ET = Programmed for existing technology.

NT = Programmed for new technology.

NTE = Programmed for new technology with expanded irrigation resources.

tions for new technology with expanded irrigation resources (NTE).

It is clear from the above that Stages 2, 3 and 4 represent the normative situations, while Stage 1 represents the actual situation that existed with the sample farmers. However, in determining the normative situations we have been guided by real world conditions of these farmers. This will be clear from the following account of type of data used for programming.

For the programming purpose we have considered various crop combinations as activities or processes. Since a majority of the sample farmers did not grow summer crops nor perennial crops like banana, papaya, we have taken two-season crop rotation (kharif followed by rabi) as a single activity. However, to compare the use of working capital and credit under various programmed conditions with that under NP conditions, the details of summer and perennial crops were included in the details of solutions obtained for various programmes. Three sets of data required to use linear programming method are those for (a) input-output co-efficients, (b) input restrictions, and (c) prices.

(A) DATA FOR INPUT-OUTPUT CO-EFFICIENTS

The data on input-output co-efficients for programming under ET conditions (i.e., Stage 2) were obtained from the sample farmers. The output of a crop activity was defined as the gross value of output minus the cost on variable inputs like seeds, fertilisers, farm yard manure, hired human labour, traction

labour, irrigation, and plant protection materials. In the cases of those farms which did not have a particular crop activity or had less than average output per acre the average value of output per acre was used. For the farms which had more than average output per acre we used the data of the respective farms for programming. For data on various input co-efficients, we followed the same procedure.

To estimate input-output co-efficients for new technology programmes (i.e., Stages 3 and 4) it was assumed that the sample farmers would grow HYV of foodgrain crops on their irrigated fields, would use recommended doses of fertilisers on crops grown on such fields and would also use half of the recommended doses of fertilisers on crops grown on unirrigated fields. The cost of "new" seeds and additional doses of fertilisers was worked out for different crops.

The yields of crops as actually obtained by the sample farmers were considered as control yields. To these yields the yield of crops due to additional dose of fertilisers which was worked out by using average fertiliser response rates as obtained from the government experimental farms, was added to estimate the total yield of various crops. Again, the input-output co-efficients were chosen by the same procedure as was followed for ET conditions.

(B) DATA FOR INPUT RESTRICTIONS

We have considered land, human labour, traction labour, working capital and irrigation hours in kharif and rabi

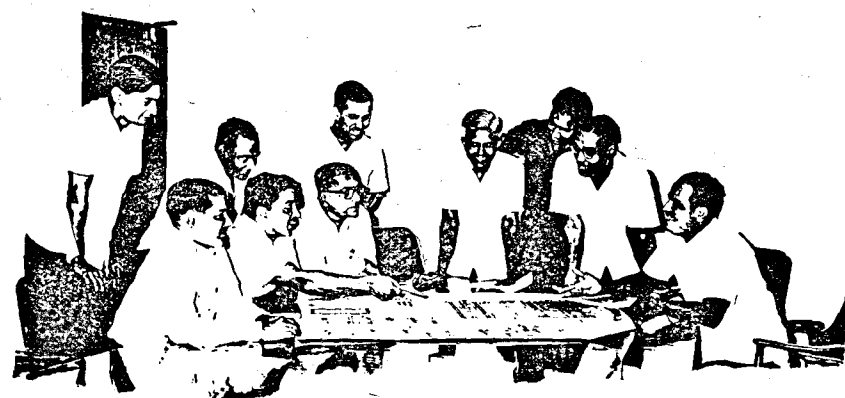
as restrictions.

(i) *Land*: Operational land available to a farmer in the reference year (i.e., July 1968-June 1969) was considered as land restriction. Further, since farmers had irrigable as well as unirrigable land it was necessary to distinguish between these two types of land. Also, we distinguished between land suitable for paddy and for crops other than paddy because some farmers had land suitable for this crop, while some farmers' staple food was rice. Thus, land restriction was incorporated in four different ways, viz, (a) irrigable land suitable for paddy, (b) unirrigable land suitable for paddy, (c) irrigable land suitable for other crops, and (d) unirrigable land suitable for other crops.

The conditions of NTE envisaged increase in irrigable land with a farmer. In the case of one of the selected talukas (Baroda) all farmers had all of their operational land irrigable; consequently there was no need to expand this resource in their case. But, in the case of most of the sample farmers of Sinor taluka which is, by and large, similar to Baroda taluka, only 56 per cent of their operational land was irrigable. We, therefore, increased it to 100 per cent. However, irrigable land of the sample farmers of the two remaining talukas was increased (from about 25 per cent) to 50 per cent instead of 100 per cent of their operational land because the scope for developing water resource in these talukas was limited on account of low water table, poor and uncertain recharge of water in wells and the existence of ravine land.

(ii) *Human Labour*: Although the overall supply of human labour was not short of demand on account of availability of migratory labour from neighbouring areas, it was learnt from farmers that labour shortage was faced during peak periods of sowing, weeding and harvesting operations. Even during such periods, however, those farmers who could pay a little higher wage did not face a shortage. In view of this complex situation we included labour restriction from May to April for each month and at the same time provided hiring activity for labour required at the prevailing wage rate. Human labour restriction included both family and hired labour.

(iii) *Traction Labour*: The maximum number of days of owned plus hired bullock labour available in different months from May to November and February were considered as restrictions for traction labour.



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TABLE 2 : FARM PRODUCTION CREDIT USE

Details	MDR				LDR			
	NP	ET	NT	NTE	NP	ET	NT	NTE
Number of farmers	24	24	24	24	24	24	24	24
Of which number of farmers using credit	15	14	15	15	22	22	22	23
Per cent of credit to working capital use by credit using farmers	38.1	38.9	44.2	48.2	51.4	62.2	64.6	65.6
Credit use per credit using farmer (Rs)	1457	1592	1881	2207	1119	1749	1939	1966
Credit use per acre of credit using farmer	134	137	174	205	78	117	131	140
Percent of credit used under ET, NT and NTE to credit used under NP	100.0	102.0	129.1	151.5	100.0	156.4	173.3	183.8

(iv) *Working Capital*: Since our main objective was to analyse adequacy of available credit, data were collected for farmers' own funds and credit resources. Thus, the working capital restriction had three components: (1) owned funds, (2) borrowed funds and (3) borrowable funds.⁷ We may, however, note that in two of the four talukas nearly 82 per cent of the available working capital was actually available with the sample farmers. The corresponding percentage in the other two talukas was 75. It is also noteworthy that only 6 of the 48 sample farmers had less than 50 per cent of available working capital as actually available.⁸

(v) *Irrigation Hours*: Maximum hours of irrigation a farmer could have used from his own and purchased sources of irrigation in different seasons formed the restriction of irrigation hours.

For the NTE conditions which envisaged increase in the irrigation resources, irrigation hours were also changed. Thus, in the case of those farmers who had irrigation facilities, irrigation hours available per acre of reported irrigable land were used to determine the available irrigation hours for the expanded irrigable land, too. Against this, for those farmers who did not have any irrigation facilities, it was assumed that they would receive as much water per acre of irrigable land as those who actually received from hired sources of irrigation.

(c) DATA FOR PRICES

Since we wanted to make a comparative analysis of the inadequacy of existing credit under the four conditions mentioned earlier, we evaluated the products as well as inputs as obtained under all the four conditions at the same prices. The prices of the products used in the study are the farm harvest prices which prevailed during 1968-69.

The prices of inputs used are the average of prevailing market prices during the same year.

III Sampling Design and Sample Selected

The study was conducted in a district of Gujarat with a relatively high level of agricultural development and also of supply of credit. The selection of district Baroda was made according to the criterion evolved to judge the level of agricultural development. To select talukas in this district, the district was classified into four agricultural zones on the basis of proportion of area under different crops to the total cropped area of the taluka. Accordingly, the four zones from which a taluka each was randomly selected were (1) cotton-jowar I with more than 70 per cent area under these crops, (2) cotton-jowar II with 60-70 per cent area under these crops, (3) cereals-pulses-tobacco with 50 per cent area under these crops, and (4) cereals-pulses with more than 50 per cent area under these crops. The selected talukas were Sinor, Waghodia, Baroda and Chhota Udepur from zones 1, 2, 3 and 4, respectively. An examination of a few features of these talukas lead us to conclude that Sinor and Baroda were more developed, whereas Waghodia and Chhota Udepur were less developed.

Two villages were randomly selected from each of the four sample talukas. The selection of villages was made so that one village in the taluka represented relatively "rapid changing" agriculture, while the other represented "slow changing" agriculture. We have used irrigation and fertiliser use as the criteria to classify villages into these two broad categories. Again, an examination of a few features of the eight selected villages and also those of the

sample farmers confirmed our conclusion that Sinor and Baroda are a more developed region (MDR) and Waghodia and Chhota Udepur a less developed region (LDR). We have, therefore, followed these two groups in analysing the results of non-programmed and various programmed conditions.

The selection of farmers from each of the eight sample villages was made after stratifying all the farmers of the village into large, medium and small owned holding groups. Each of these groups was further divided into two sub-categories, viz, high and low fertiliser users. And one farmer was randomly selected from each of these two sub-categories within each of the three groups in the selected village. Thus, our sampling design considered typicalities of varied farm situations that exist in the district.

The total sample size for the study was one district, four talukas, eight villages and 48 farmers.

IV Use of Total Working Capital and Credit

The use of working capital and credit was determined as follows:

In the case of NP conditions, the actual reported use of working capital and credit by the sample farmers was taken into consideration. In the case of various programmed conditions, the use of working capital was arrived at by multiplying the levels (in terms of acreage) of crop activities of the optimum solution with their respective input co-efficients of working capital. To make this working capital comparable with that of the NP conditions, we added the working capital used for all those activities which were not considered in the programming. In addition, we added the cost of land revenue and repairs and maintenance

TABLE 3 : CLASSIFICATION OF FARMERS ACCORDING TO RANGES OF MVP OF AVAILABLE WORKING CAPITAL UNDER PROGRAMMED CONDITIONS

Ranges of MVP of Available Working Capital (in per cent)	MDR						LDR					
	ET		NT		NTE		ET		NT		NTE	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Zero	20	12	17	12	11	6	14	13	9	8	6	6
0.01-0.02	—	—	1	—	2	1	1	1	2	2	—	—
0.03-0.04	1	—	1	1	1	1	—	—	—	—	—	—
0.05-0.06	—	—	—	—	—	—	8	7	1	—	2	2
0.07-0.08	—	—	1	—	1	—	1	1	3	3	2	1
0.09-0.10	1	1	—	—	—	—	—	—	6	6	4	4
0.11-0.13	—	—	—	—	1	1	—	—	1	1	4	4
0.14-0.16	—	—	2	1	5	4	—	—	—	—	2	2
0.17-0.19	2	1	—	—	—	—	—	—	—	—	1	1
0.20 and more	—	—	2	1	3	2	—	—	2	2	3	3
	24	14	24	15	24	15	24	22	24	22	24	23

(1) = All farmers (2) = Credit using farmers

charges of implements which were not included in the input co-efficient of working capital used for programming. From the total working capital so determined, farmers' owned funds were deducted to arrive at their use of credit. The use of credit under each of the four conditions thus represent the existing use of credit in the four stages of changing agriculture.

Table 1 gives the data on per farmer and per acre working capital used under different conditions. It can be seen from the Table that under NP conditions, the per farmer working capital used in the MDR was nearly three times that in the LDR. However, the increase in working capital used to adopt changes in agriculture in the MDR was marginal (about 2 per cent under NT and 5 per cent under NTE), whereas in the LDR it was substantial (25 per cent under ET, 33 per cent under NT and 38 per cent under NTE). Further, in the MDR, the additional working capital used per acre was also very small for the adoption of the new technology. In the LDR, however, the working capital used per acre went on increasing as the changes in agriculture took place from NP to NTE conditions. The total increase in the per acre working capital used under NTE conditions over that under NP was of the order of 40 per cent. Interestingly enough, in the MDR, the working capital used in the optimum plan of ET conditions was less than the working capital used in the NP conditions.

The relevant data on the use of credit as given in Table 2 show that in the LDR, as many as 22 (out of 24) farmers used working capital credit,

while in the MDR, only 15 (out of 24) farmers used such credit. The proportion of credit in the working capital used by these credit using farmers under all four conditions was much lower in the MDR than that in the LDR. This indicates that the degree of self-financing was, for obvious reasons, much higher in the former (62 per cent under NP conditions) than that in the latter region (49 per cent under NP conditions). The percentage of credit to working capital used increased continuously as we shifted from NP to NTE conditions in both the regions. It is, however, noteworthy that in the MDR this percentage never reached 50, whereas in the other region it was as high as 66 under the conditions of NTE. The per farmer credit use was higher under all conditions except conditions ET and NT, in the MDR than in the LDR. However, the per acre credit use was higher under all conditions in the MDR than in the other region. Per farmer as well as per acre credit use increased continuously as we shifted from NP to NTE conditions in both the regions. Finally, with the changes in agriculture the increase in per acre credit use in the LDR was much higher (56 per cent under ET, 73 per cent under NT and 84 per cent under NTE) than in the MDR (2 per cent under ET, 29 per cent under NT and 52 per cent under NTE).

V

Marginal Value Productivity of Working Capital

The marginal value productivity (MVP) of working capital would help

us judge (1) the shortage or surplus of existing working capital including credit, (2) the profitability of use of existing credit, and (3) the additional credit absorbing capacity of farms. Theoretically, MVP of working capital greater than the cost of capital would indicate that the level of working capital use is less than the optimum. On the other hand, if the MVP is less than the cost of capital, the level of use of working capital would be more than the optimum. In the former case one can find out the additional credit absorbing capacity and in the latter one can determine the surplus working capital available with the farmer.

For NP conditions we have examined the MVP of working capital actually used by farmers, whereas for the programmed conditions the MVP of available working capital was studied. As mentioned earlier, in the programmes of individual farms we had introduced the restriction of available working capital which comprised of owned funds plus funds from various sources of credit. Hence the MVP of working capital of individual farm was for that level of working capital which was different from the working capital actually used in the non-programmed conditions of the farm. Further difference in the MVP of working capital worked out for NP conditions and programmed conditions is that in the former it is at an average level of the total sample, whereas in the latter MVP is worked out for each individual farm.

(A) MVP OF WORKING CAPITAL USED UNDER NP CONDITIONS

The MVP of working capital in the NP conditions was worked out by

TABLE 4 : ADEQUACY OF AVAILABLE INSTITUTIONAL CREDIT AND ADDITIONAL INSTITUTIONAL CREDIT REQUIRED BY FARMERS USING CREDIT

Details	MDR				LDR			
	NP	ET	NT	NTE	NP	ET	NT	NTE
(1) No of farmers using credit	15	14	15	15	22	22	22	23
(2) Per farmer amount of working capital used by farmers in item (1) (Rs)	3829	4088	4253	4579	2178	2814	3003	2992
(3) Per farmer amount of credit used (Rs)	1457	1592	1881	2207	1119	1749	1939	1967
(4) No of farmers who have institutional credit sufficient to meet their total credit use	10	8	8	5	19	12	8	7
(5) Per farmer amount of credit use by farmers in item (4) (Rs)	1520	1614	1305	1884	1025	1017	1426	1581
(6) No of farmers who have institutional credit inadequate to meet their total credit use	5	6	7	10	3	10	14	15
(7) Per farmer amount of credit use by farmers in item (6) (Rs)	1331	1563	2540	2369	1710	2628	2231	2135
(8) Per farmer amount of institutional credit available to farmers in item (6) (Rs)	240	367	1007	1013	510	1353	1201	1033
(9) Per farmer amount of additional credit required by farmers in item(6) (ie 7-8)(Rs)	1091	1196	1533	1356	1200	1275	1030	1102

employing the production function of the Cobb-Douglas type. The function considered the following variables :

- X_1 = Gross cropped area in acres
- X_2 = Working capital used in rupees
- Y_i = Gross value of production in rupees, $i = 1, \dots, 2$, 1 for MDR, and 2 for LDR.

$$\text{Function } Y_i = a x_1^{b_1} x_2^{b_2}$$

The estimated function was as follows :

$$\begin{aligned} \text{MDR} \\ Y_1 &= 14.18 x_1^{0.5607} x_2^{0.6217} \\ R^2 &= 0.93 \\ \text{MVP of } x_1 &= 479.73 \\ \text{MVP of } x_2 &= 1.40 \\ \text{LDR} \\ Y_2 &= 3.80 x_1^{0.4387} x_2^{0.7514} \\ R^2 &= 0.84 \\ \text{MVP of } x_1 &= 90.67 \\ \text{MVP of } x_2 &= 1.44 \end{aligned}$$

* Significant at 1 per cent level.

As the explained variation of the output was quite good, we could use these functions for further analysis. The marginal value productivity of both the independent variables was worked out at their geometric mean levels. Thus, the MVP of working capital was Rs 1.40 for the sample farms of the MDR, whereas it was Rs 1.44 for those of the LDR. The prevailing rate of interest on institutional credit which was the cheapest source of credit to substitute owned funds, was about 10 per cent. Hence the cost of capital may be considered as 1.10 for every rupee of capital. As the MVP of working capital was much higher than the marginal

cost of capital, we can infer that the profitability of working capital which included credit, at the mean level of its use was fairly high in both the regions. It is, however, noteworthy that the profitability of present credit use was marginally higher in the LDR than in the MDR.

We also attempted to find out the optimum level of working capital by equating MVP with the marginal cost of capital. This worked out to Rs 6,745 and Rs 4,036 in the MDR and the LDR, respectively. Against this, the actual average use of working capital was Rs 6,324 in the former and Rs 2,314 in the latter. The larger difference between the optimum and actual levels of working capital in the LDR than in the MDR indicates that the degree of shortage of working capital was higher in the former than in the latter. Further, from the optimum levels of working capital used we deducted the average amount of owned funds with the sample farmers to arrive at the optimum levels of credit required in the two regions. These worked out to Rs 1,095 in the MDR and Rs 2,740 in the LDR. Against this, the actual average use of credit per farmer was Rs 911 in the former and Rs 1,026 in the latter. Inasmuch as the difference between the optimum and actual levels of credit was larger in the LDR than in the MDR, it again indicates that both the degree of shortage of credit and the additional credit absorbing capacity were higher in the former (ie LDR) than in the latter (ie MDR). Finally, the optimum amount of credit required formed 16 and 68 per cent of the total optimum working capital required in the MDR and LDR, respectively.

(B) MVP OF AVAILABLE WORKING CAPITAL UNDER PROGRAMMED CONDITIONS

The MVP of available working capital under the three programmed conditions was obtained by the shadow prices in the linear programming method. Table 3 gives the classification of sample farmers and of credit using farmers according to the ranges of MVP of working capital under each programmed conditions in the two regions.

In the MDR, under each programmed condition not less than 50 per cent of the total sample farmers (24 in number) had zero MVP of available working capital. The corresponding percentages in the LDR were 58 under ET, 38 under NT and 25 under MTE. This means that even in the LDR one-fourth of the sample farmers had adequate working capital to adopt the new technology with expanded irrigation resources conditions. In the MDR, the corresponding number was almost one-half. This fact gets camouflaged in the study of MVP of working capital at the average level of the sample. Further, even among the farmers in whose case MVP of working capital was positive there was a significant number of farmers who had adequate working capital in both the regions. This is indicated by the MVPs of working capital being less than 10 per cent.⁹ It is, however, noteworthy that the number of farmers having MVP of working capital greater than 10 per cent increased as we shifted from ET to NTE conditions; particularly it increased sharply under NTE conditions in both the regions.

As indicated earlier, the working capital was composed of owned as well as credit components. Table 3 also se-

TABLE 5: NUMBER OF FARMERS HAVING EXCESS AVAILABLE INSTITUTIONAL CREDIT AND THE AVERAGE AMOUNT OF SUCH CREDIT

	MDR				LDR			
	NP	ET	NT	NTE	NP	ET	NT	NTE
(1) No of farmers having excess institutional credit	7	10	8	6	16	13	8	6
(2) Average amount of excess institutional credit per farmer in item (1) (Rs)	1505	1183	1181	1233	504	266	103	61

parately shows the distribution of farmers who had used both owned funds and credit resources. We have designated these farmers as credit-using farmers. Thus, the data on MVP of working capital in the case of these farmers reveal the following:

Even under NTE conditions there were 6 farmers (out of 15) in the MDR and 6 farmers (out of 23) in the LDR, who had zero MVP of working capital. This means that these credit using farmers had adequate working capital (including credit) to adopt the advance technology with expanded irrigation resources situation. Further, even among the credit using farmers there was a significant number of farmers whose MVP of working capital was less than 10 per cent.¹⁰ This implies that these farmers had funds more than the optimum. But, again, among the credit using farmers also the number of farmers having MVP of working capital greater than 10 per cent increased as we moved from ET to NTE conditions; particularly, it increased sharply under NTE conditions in both the regions. This observation has a direct implication for the role that the credit institutions would require to play to enable a farmer to use credit profitably.

To conclude, when we considered the use of working capital as per the production function approach we found that credit use upto the geometric mean level of working capital was very profitable. Also, in both the regions we found a general situation of shortage of working capital compared to its optimum level. We compared the optimum level of working capital with average owned funds plus average credit use, it indicated that the average available credit was less than the credit required at the optimum level of working capital. Hence there existed additional credit absorbing capacity with the sample farmers of both the regions.

However, when we studied the MVP of available working capital of individual farms by the linear programming method we did not arrive at the same

conclusions. This is because under programmed situations we have considered available working capital which was more than the used working capital under NP conditions. Since the present concern of the credit institutions is to find out whether the existing availability of working capital including credit with a farmer is adequate or not, the MVP of available instead of used working capital is more relevant and useful. Another reason for the differences in the results of the two methods is the differences in the two methods by which the MVP of working capital was worked out. Since the linear programming method, unlike the production function method, gives the MVP of working capital for each individual farmer the results based on such method should be considered operationally more useful. The production function approach used for the cross-sectional data can analyse only the average situation which hides the variation that could be observed by studying the individual farm by the linear programming method. The conclusion that many farmers had adequate funds is against the general notion that the existing availability of short-term credit is not adequate. On the contrary, the study indicates that the existing availability of credit along with farmers' owned funds are sufficient to enable the farmer to adopt new technology and also use more of irrigation.

VI

Adequacy of Available Institutional Credit

So far we have examined the adequacy of credit, both institutional and non-institutional, for meeting the changing needs of agriculture. But, it is now pertinent to examine whether available institutional credit with the sample farmers was sufficient or not. The examination of this issue has obvious policy implications for institutional agencies supplying credit.

As seen earlier, under the NP conditions 15 (out of 24) and 22 (out of 24)

sample farmers of the MDR and LDR, respectively, used credit for working capital purposes. The examination of the credit used by these farmers showed us that the present source of institutional credit was adequate in the case of as many as 10 farmers in the MDR and 19 in the LDR. The credit portion of the working capital of the remaining 5 farmers in the former and 3 in the latter could not be completely met from the available institutional sources of funds. The average total credit use per farmer (i.e., of those whose total credit use was not completely met by the institutional sources) was Rs 1,331 and Rs 1,710 in the MDR and the LDR, respectively. Out of these total credit use per farmer, the amount of credit that was available from institutional sources was Rs 240 in the MDR and Rs 510 in the LDR. Thus, under NP conditions the additional credit was required by only 5 and 3 farmers at the rate of Rs 1,091 (Rs 1,331 minus Rs 240) and Rs 1,200 (Rs 1,710 minus Rs 510) per farmer in the MDR and the LDR, respectively.

In changing agriculture conditions of ET, NT and NTE, the number of farmers having adequate institutional credit to meet their total credit use as per optimum programmes declined in both the regions (see Table 4). This decline was substantial in the LDR compared to that in the MDR. The amount of per farmer additional institutional credit required also increased, being Rs 1,196, Rs 1,533 and Rs 1,356 in the MDR and Rs 1,275, Rs 1,030 and Rs 1,102 in the LDR, under ET, NT and NTE conditions, respectively.

Although we have determined additional institutional credit required to substitute non-institutional credit, it does not directly indicate the scope for fresh pump-in of new institutional credit. This is because there were some farmers with whom the availability of institutional credit was more than the requirement. Let us, therefore, examine the number of farmers having excess institutional credit and the magnitude of such credit with them.

VII

Scope for Reallocation of Available Institutional Credit

A surprising finding revealed by the study was that as many as 7 and 16 out of 24 farmers each in the MDR and the LDR, respectively, had access to the institutional sources of credit such that they could have more credit than they actually required. Table 5 gives the details. Under non-programmed condi-

TABLE 6: DETAILS OF SURPLUS OR SHORTAGE OF AVAILABLE INSTITUTIONAL CREDIT

Details	MDR				LDR			
	NP	ET	NT	NTE	NP	ET	NT	NTE
(1) No of farmers having excess available institutional credit	7	10	8	6	16	13	8	6
(2) Total amount of excess available institutional credit (Rs)	10535	11827	9445	7396	8061	3388	827	367
(3) No of farmers requiring additional institutional credit	5	6	7	10	3	10	14	15
(4) Total amount of additional institutional credit required (Rs)	5453	7178	10725	13563	3600	12756	14414	16533
(5) Surplus or shortage of available institutional credit (ie, item 4-2):								
Surplus	5082	4649	—	—	4461	—	—	—
Shortage	—	—	1280	6167	—	9368	13587	16166
(6) Average amount of surplus or shortage per credit using farmer (Rs):								
Surplus	339	332	—	—	203	—	—	—
Shortage	—	—	85	411	—	426	618	703
(7) Average amount of surplus or shortage per farmer in the sample (Rs):								
Surplus	212	194	—	—	186	—	—	—
Shortage	—	—	53	257	—	390	566	674

tions the per farmer amount of excess institutional credit was Rs 1,505 and Rs 504 in the MDR and the LDR, respectively. This excess credit could be used in changing agriculture. However, our findings show that even after the adoption of new technology and the expansion of irrigation resources in the cases of farmers having excess credit, there would be an excess of available institutional credit to the tune of Rs 1,233 and Rs 61 per farmer in the MDR and the LDR, respectively. This gives us an idea of the magnitude of excess credit that can be withdrawn from the farmers who had obtained or were in a position to obtain excess credit either because of their own influence or because of the lack of scrutiny of individual credit requirements by the lending agencies. Thus, under all the four conditions there existed excess institutional credit which could be reallocated among farmers who required additional institutional credit.

VIII

Adequacy of Excess Available Institutional Credit to meet Additional Requirement of Institutional Credit

Having observed that there was excess available institutional credit under different conditions of changing agriculture, we matched this excess credit with the additional institutional credit required that is determined in the cases of some farmers in section VI. The difference between the excess available institutional credit and additional institutional credit required gave us either

surplus or shortage of the available institutional credit.

Table 6 gives the details of surplus or shortage of available institutional credit under four conditions of changing agriculture. Following observations can be made from the Table:

Under NP conditions, the excess available institutional credit was more than sufficient to meet the additional institutional credit required by farmers in both the regions in the sample. This remained true for ET conditions but only in the MDR. In the LDR, the excess available institutional credit was short of additional institutional credit required by Rs 9,368. But, with the adoption of new technology (i.e., conditions of NT and NTE) the excess available institutional credit was not sufficient to meet the additional institutional credit required in both the regions. Further, the magnitude of shortage of available institutional credit went on increasing with changing technological conditions in both the regions. Finally, the magnitude of shortage of available institutional credit was much higher (both the absolute amount and average amount per farmer) in the LDR than in the MDR.

IX

Scope for Fresh Pumping-in of Institutional Credit

It is obvious from the analysis of the preceding section that under NP conditions, there did not exist any scope for the expansion of institutional credit in both the regions. In the MDR, this was true even for the conditions of op-

timisation under existing technology (i.e., ET conditions). The total amount and the average amount (per farmer) of new institutional credit required to be pumped-in under the remaining conditions in the MDR and the LDR are given in Table 7.

In the MDR, under ET conditions, there was a surplus of Rs 4,649, whereas in the LDR there was a shortage of Rs 9,368. If the surplus credit of the MDR was transferred to the LDR, the institutional credit which is required to be pumped-in afresh (in the LDR) was of the magnitude of Rs 4,659. This amounts to Rs 215 per credit using farmer and Rs 196 per farmer in the sample in the LDR. This shows that the scope for reallocation of available institutional credit existed not only within the region but between different regions, too.

The comparison of new institutional credit that can be pumped-in in the two regions reveals that the magnitude of such credit was much higher in the LDR than in the MDR. This is true both for the total and average amounts of credit per credit using farmer as well as per farmer in the sample. Table 7 also shows that in the two regions, both the total and average amounts of new institutional credit that are required to be pumped-in increased with changes in technology.

Finally, we may recognise that the foregoing analysis of the scope for fresh pumping-in of institutional credit to substitute non-institutional credit implies an important assumption. The assumption is that the institutional agencies would make available credit con-

TABLE 7: DETAILS OF SCOPE FOR FRESH PUMPING-IN OF INSTITUTIONAL CREDIT

Details	MDR				LDR			
	NP	ET	NT	NTE	NP	ET	NT	NTE
(1) Total amount of new institutional credit required to be pumped in (Rs)	—	—	1280	6167	—	4719	13587	16166
(2) Average amount of new institutional credit required to be pumped-in per farmer using credit (Rs)	—	—	85	411	—	215	618	703
(3) Average amount of new institutional credit required to be pumped-in per farmer in the sample (Rs)	—	—	53	257	—	196	566	674

veniently and in time, which are the two strong features favouring use of non-institutional credit.

X

Conclusions

The major conclusions of the study are:

(1) The existing availability of working capital, including credit, with the sample farmers of both the regions in Baroda district was not inadequate to meet the requirements of technological changes in agriculture.

(2) Even the existing availability of institutional credit was not far short of credit required to adopt the new technology in both the regions. The additional institutional credit required was substantially high only in the situation of new technology with expanded irrigation resources. This was particularly marked in the Less Developed Region than in the More Developed Region of Baroda District.

(3) There existed a significant scope for reallocation of existing credit facilities. The withdrawal of institutional credit from the farmers with adequate owned resources and providing these facilities to the "needy" farmers would increase efficiency of credit use.

(4) Credit management involves proper scrutiny of individual loans and an emphasis on the developmental role by the credit suppliers.

(5) With proper understanding of the developmental role and efficient credit allocation, much could be achieved even with the existing resources of institutional credit.

Notes

1. Desai, D K and Tambad, S B: "Farm Finance by a Commercial Bank", Indian Institute of Management, Ahmedabad, 1970.

2. The study of this issue is based on a research project conducted by the Institute. The report of this project entitled "Production Credit Management in Changing Agriculture", by B M Desai and D K Desai has been just completed. The report would be shortly published by the Indian Institute of Management, Ahmedabad.

3. See for example, Desai, B M and Desai, M D: "The New Strategy of Agricultural Development in Operation", Thacker and Co, Bombay, 1969, pp 54; Desai, B M and Desai, D K, *op cit*, pp 167.

4. To illustrate, the scale of finance prescribed for hybrid bajra for most of the districts in Gujarat is Rs 170 per acre.

5. For detailed discussion on methodology and data used for programming and also on sampling design and sample characteristics, see Desai, B M and Desai, D K, *op cit*, chapters I, II and III.

6. Out of 48 sample farmers, only six grew perennial crops, whereas summer crops were grown by nine farmers.

7. In collecting the data on borrowable portion of the available working capital due care was taken by using various cross-checks; for example, the borrowable funds from institutional sources were cross-checked with the help of the secretaries of the co-operative societies which were the main source of supply. Similarly, the cases of farmers having borrowable funds from relatives were cross-checked by looking into the concerned farmers' economic and social status.

The percentage share of different sources of available working capital in the total available working capital with the sample farmers was as follows:

	More Developed Talukas	Less Developed Talukas
Owned funds	69.4	37.0
Institutional credit	13.8	34.6
Money lenders' credit	3.8	8.0
Relatives' credit	13.0	20.4

8. This was because these farmers were rather cautious in borrowing. In one of the four sample talukas to which three of these six farmers belonged, it was learnt from the secretary of the co-operative society that these farmers were not adequately motivated to use credit. These were tribal farmers.

9. It is assumed that the cost of farmers' owned funds would be the same as that of institutional credit which was the cheapest source to substitute owned funds, if owned funds were not available with a farmer. Under this assumption all those farmers whose MVP of working capital was less than 10 per cent used working capital at more than the optimum level.

10. As we were interested in finding out additional credit needs *vis-a-vis* available credit, we did not study the problem of optimality of the present credit use. If we had done that, perhaps in the case of those farmers having MVP of working capital less than 10 per cent the optimum credit required would have been less than what has been used in the programmes formulated by us. Consequently the excess (institutional) credit available with the sample farmers would have been more than we have determined in section VII. In this section the excess available institutional credit is determined only in the cases of those farmers whose MVP of working capital is zero.

Premier Tyres

PREMIER Tyres received in last March an industrial licence for manufacture of two million bicycle tyres and tubes per annum. To meet the cost of imported plant and machinery for the project, ICICI has sanctioned, in principle, a foreign exchange loan equivalent to Rs 49 lakhs. In April 1969, the company was issued a 'letter of intent' to expand annual production of automobile tyres and tubes to six lakh units. Industrial and capital goods licences for this expansion are awaited. During the year to March 1970, additional capital expenditure of Rs 22 lakhs was undertaken by the company, while outstanding commitments for capital goods at the year end amounted to Rs 38 lakhs. With the installation of this equipment, the plant capacity will get increased by 60,000 tyres and tubes per annum. This expenditure related mainly to diversification into scooter tyres and animal-drawn vehicle tyres and to the introduction of new tread patterns both for rayon and nylon truck and bus tyres. Meanwhile, Premier's 1969-70 results have been poor due to closure of the factory for about 3 months due to a strike.

Impact of HYVP on Rural Labour Market

R K Lahiri

Apart from a quick increase in cereals output, the High-Yielding Varieties Programme has generated additional demand for agricultural labour.

An attempt has been made in this article to estimate the magnitude of this additional demand. Although the study confirms the general belief that demand for agricultural labour has increased, the impact of this increase on the wage levels of agricultural labourers is not yet very clear. It seems clear nevertheless that the demand factor influences the wage level only after the existing reserve of unemployed agricultural labourers have been completely absorbed.

I

Introduction

THE High-Yielding Varieties Programme (HYVP), or the New Strategy in Agriculture, is now in the fifth year of its operation. The area covered by the programme reached 9.2 million hectares in 1968-69. The Strategy is expected to benefit the rural economy in two ways: (a) by quickly increasing the cereal output and (b) by raising the demand for agricultural labourers. The increase in the output of cereals, particularly output of wheat, has been spectacular during the last three years. But there has been very little attempt to study the impact of the new strategy on the rural labour market.

In this paper, we shall present the results of an exercise which was aimed at estimating the demand for additional agricultural labour days generated by the new strategy of HYV and its impact on the rural labour market.

Section 2 briefly discusses the sources of the material analysed and its limitations. Section 3 is devoted to an exercise to estimate the increase in demand for agricultural labour, two different estimates being given on the basis of two sets of assumptions. In Section 4, the movement of agricultural labour wages over time has been analysed and changes in wages have been compared with the increase in demand for labour. Section 5 consists of concluding remarks.

II

Sources of Data Analysed

Data relating to labour requirements for agricultural operations in pre-HYV crops are available in Farm Management Studies¹ and also in cost of cultivation studies of the National Sample Survey (NSS).² The proportion of total labour contributed by family workers is also available in both sources.

As regards labour requirement in HYV crops, we have not come across any study that provides information on total labour actually used in HYV crops in the different States. The only source that could be used for this purpose is

the Programme Evaluation Organisation (PEO) Studies on the HYVP for the years 1967-68 and 1968-69.³ One severe limitation of the PEO studies has to be kept in mind, however. The cash expenditure per hectare, as given in the PEO studies, obviously does not include any imputed value for the contribution from family labour and it is not possible to guess the amount of labour contributed by family workers in the farms covered by the PEO studies.

Data relating to wages of agricultural labourers have been collected from *Agricultural Situation in India*, Quarterly Bulletins of Different State Statistical Bureaus, and also certain other sources. In none of the sources mentioned above is the annual average wage for a State available. The monthly modal wage of agricultural la-

bourers is collected usually from two selected villages in each district in each State. For some States, the *Agricultural Situation in India* provides average wage of field labourers for one or two districts of a State, and for some other States, operation-wide wages for one or two districts are given. We have taken the average wage for the principal sowing and harvesting months in each State. The average of two villages has been accepted as the district average and, where more than one district has not been given, this figure has been accepted as the average wage for the State.

III

Increase in Demand for Agricultural Labour

Estimates of labour requirement in irrigated paddy and wheat cultivation

TABLE 1: TOTAL LABOUR DAYS UTILISED IN ALL AGRICULTURAL OPERATIONS PER HECTARE OF PADDY AND WHEAT IRRIGATED AND PRE-HYV

Crop and State	Human Labour			Period of Investigation
	Contributed by Family Workers	Hired Labour	Total Labour Days	
(1)	(2)	(3)	(4)	(5)
Paddy : Andhra Pradesh	23	93	116	1957-60
Bihar	31	64	95	60-63
Kerala	3	155	158	62-65
Madhya Pradesh	62	31	93	62-65
Tamil Nadu	230	58	288	54-57
West Bengal	73	47	120	54-57
Average	70	75	145	
Wheat: Uttar Pradesh	60	24	84	54-57
Punjab	52	15	67	54-57
Maharashtra	77	23	100	54-57
Rajasthan	105	35	140	62-65
Average	74	24	98	

Source: Farm Management in India, Directorate of Economics and Statistics, Ministry of Food and Agriculture, Government of India, April 1966.

TABLE 2 : NUMBER OF HIRED LABOUR DAYS UTILISED PER HECTARE BY FARMERS PARTICIPATING IN HYVP : 1968-69

States	Number of Hired Days in	
	HYV (2)	Others (3)
	<i>Paddy (kharif)</i>	
Andhra Pradesh	222	101
Kerala	148	82
Tamil Nadu	133	64
West Bengal	141	82
Average	161	82
	<i>Wheat (rabi)</i>	
Punjab	20	—
Uttar Pradesh	69	3
Average	45	2

in several States in pre-HYV days are available in Farm Management studies conducted in the different States during the period between 1954-55 and 1960-61. It is evident from Table 1 that on an average 145 labour days were needed for the cultivation of one hectare of irrigated paddy in the six States. But there was high variability among the States both as regards total labour requirement and hired labour. Out of a total of 158 labour days needed per hectare in Kerala, family workers contributed only 3 days, whereas in Tamil Nadu as many as 230 days were contributed by family workers in a total of 288 days. For pre-HYV irrigated wheat, variability among the States is less, both in total labour days required and in hired labour days per hectare. On an average, 52 per cent of labour days in paddy and 25 per cent labour days in wheat cultivation were hired.

Hired labour requirement in HYV paddy and wheat during 1968-69 has been obtained from the PEO studies of HYVP for that year. Number of labour days actually utilised was obtained by dividing the cash expenditure on hired labour by the average daily wage of agricultural labour in each State during 1968-69. In Table 2 we have shown the hired labour days utilised in HYV paddy and wheat for some States for which pre-HYV figures have been given above. Hired labour utilisation in non-HYV crops by the participant cultivators has also been shown in the Table. Figures relating to paddy in Madhya Pradesh are not given

in the PEO studies and those for Bihar have been excluded as they were too low.

Average hired labour requirement, for HYV paddy in 1968-69, in the four States comes to 161, as against 75 in the pre-HYV days. Average hired labour in non-HYV paddy in 1968-69 for the same four States was 82 and this compares favourably with the pre-HYV figure of 75. In the case of HYV wheat, the average of two States comes to 45 hired labour days in 1968-69, as against 24 in the pre-HYV period. An estimate of the increase in demand for agricultural labour due to the introduction of HYVP (paddy and wheat) can be made on the basis of these figures. The relevant calculations are shown in Table 3.

The estimate in Table 3 is subject to a number of defects. In the first place, it does not include the additional demand for labour due to HYVP in Jowar, Bajra and Maize. Secondly, this

estimate is based on average labour utilisation in a few States only.

Another estimate of additional labour demand can be made on the basis of information thrown up by NSS cost of cultivation surveys. All-India average figures, of hired labour days utilised in the cultivation of five cereal crops, have been taken from the Seventh Round (1952-53) of NSS and these figures have been compared with the relevant figures computed from the PEO studies for 1968-69. The calculations are presented in Table 4.

One important point claims attention as we compare Tables 3 and 4. Hired labour requirement of ordinary paddy varieties during the period covered by the Farm Management Surveys is almost twice as large as that reported by NSS surveys during 1952-53. Two explanations appear plausible: (1) Farm Management districts were purposively selected and, perhaps, they represent the more intensively cultivated paddy

TABLE 3 : ESTIMATED INCREASE IN DEMAND FOR AGRICULTURAL LABOUR DAYS IN 1968-69 DUE TO HYV PADDY AND WHEAT

Crop	Labour Utilisation per Hectare		Increase in Labour Utilisation (col 2—col 3)	Area under HYV in 1968-69 (million hectares)	Increase in Demand for Labour (million labour days)
	HYV 1968-69	Pre-HYV (farm management)			
(1)	(2)	(3)	(4)	(5)	(6)
Paddy	161	75	86	2.6	223.6
Wheat	45	24	21	4.8	100.8
Total	x	x	x	7.4	324.4

TABLE 4 : ESTIMATED INCREASE IN DEMAND FOR AGRICULTURAL LABOUR DAYS IN 1968-69, DUE TO FIVE HYV CEREALS

Crop	Hired Labour	Days/Hectare	Increase (col 2—col 3)	Area under HYV 1968-69 (million hectares)	Increase in Demand for Labour (million man-days)
	HYV 1968-69	Pre-HYV 1952-53 (NSS)			
(1)	(2)	(3)	(4)	(5)	(6)
Paddy	111	40	71	2.6	184.6
Wheat	40	20	20	4.8	96.0
Jowar	47	14	33	0.7	23.1
Bajra	27	9	18	0.7	12.6
Maize	57	14	43	0.4	17.2
Total	x	x	x	9.2	333.5

Source : Column 2—Computed from PEO studies: Kharif 1968 and Rabi 1968-69. Column 3—Computed from NSS Reports Number 32 (Parts I and II). For paddy and jowar, figures for Kharif only have been taken.

districts requiring larger number of hired labour per hectare; on the other hand, in the NSS Survey farms were selected by the random sampling method and farms of various levels of efficiency were thus included. Since the proportion of intensively cultivated area is smaller than that of the inefficiently cultivated area, the average figure is likely to be pulled down. (2) Campaign for intensive method of cultivation in

the fifties, and particularly since the IADP in the early sixties, might have induced the cultivators to increase the labour input per hectare.

For the purpose of our subsequent analysis, State-wise figures of increase in demand for agricultural labour are more important and, by estimating the increase State-wise, we can avoid difficulties caused by the inter-State variations. We have, therefore, first computed

TABLE 5 : ESTIMATED NUMBER OF ADDITIONAL HIRED LABOUR DAYS UTILISED BY CULTIVATORS PARTICIPATING IN THE HYVP IN 1968-69

State	(thousand man-days)					Total Increase in Labour Demand
	Paddy	Maize	Bajra	Jowar	Wheat	
Andhra Pradesh	11679	693	381	1586	—	14339
Assam	728	111	—	—	176	1015
Bihar	—	1469	—	—	9033	10502
Gujarat	1620	149	3588	231	6529	12117
Kerala	15792	—	—	—	—	15792
Madhya Pradesh	7890	954	109	1012	3155	13120
Maharashtra	3486	289	1615	44206	2477	52075
Mysore	2166	2357	249	17763	1026	23561
Punjab	1246	726	1140	—	20234	23346
Tamil Nadu	52373	224	559	956	—	54112
Uttar Pradesh	26117	592	136	893	165970	193708
West Bengal	29027	165	—	—	3206	32398
Total	152124	7729	7777	66647	211806	446083

TABLE 6 : ESTIMATED INCREASE IN DEMAND FOR AGRICULTURAL LABOUR DAYS PER HECTARE AND AS PERCENTAGE OF PREVIOUSLY UNEMPLOYED LABOUR DAYS

States	Increase in Demand for Labour Days Expressed as Percentage of		Increase in Labour Demand per Hectare of Net Cultivated Area
	Total Unemployed Labour Days	Unemployed Labour Days due to Want of Work	
Andhra Pradesh	2.4	4.2	1.3
Assam	1.5	11.2	0.4
Bihar	1.8	3.2	1.4
Gujarat	7.1	16.6	1.3
Kerala	8.7	12.7	7.6
Madhya Pradesh	3.7	10.8	0.8
Maharashtra	16.3	38.4	2.9
Mysore	9.9	22.6	2.4
Punjab	24.3	50.7	6.0
Tamil Nadu	8.8	13.3	8.9
Uttar Pradesh	40.7	105.3	11.2
West Bengal	16.2	21.6	5.8

the difference between the hired labour days used in HYV and non-HYV crops by the participant cultivators in HYV in 1968-69 for each crop. As the area under HYV was a small fraction of the total holding of the participant cultivator, we can assume that cultivation of non-HYV crop was not neglected. The difference between the hired labour requirements of the two types of crops can, therefore, be accepted as the additional amount of labour required by the new strategy. Moreover, several years of campaigning in the IADP districts have, perhaps, induced cultivators to adopt intensive methods of cultivation — which might have increased the labour requirement in cultivation of non-HYV crops also. Comparison with Farm Management data would have hidden this increase and the result would be an overestimation of increased demand. We have, therefore, estimated the increase in demand for hired labour on the basis of the behaviour of participant cultivators in 1968-69.

The differences in the hired labour utilisation, as computed above, was then multiplied by the areas under the HYV crops in each State. The State-wise area figures were obtained from Fertiliser Statistics.⁴ The estimated increase in demand for agricultural labour days, by State and by crop, is presented in Table 5.

It is observed from Table 5 that the immediate impact of HYVP on the rural labour market was an increase in the demand for agricultural labour to the extent of 446 million man-days, of which Uttar Pradesh alone accounted for more than 40 per cent. Wage statistics for agricultural labour were not available for the States of Haryana, Orissa and Rajasthan, and our estimate of increase in demand does not include the contribution of these three States or of the Centrally administered Territories. In terms of total coverage, our estimate accounts for 8.2 million hectares, or 89 per cent of the total area under HYV in 1968-69.

The increase in demand for agricultural labour days have to be viewed against the volume of already existent reserves of unemployed agricultural labourers as well as against the net cultivated area in the different States. These are shown in Table 6.

Estimated number of total agricultural labourers in the different States and the number of days unemployed were obtained from "Agricultural Labour in India — Report on the Second Inquiry".⁵ Figures of net cultivated area were taken from Fertiliser Statistics,

TABLE 7: RELATION BETWEEN CHANGES IN DEMAND FOR AND CHANGES IN THE WAGE LEVELS OF AGRICULTURAL LABOURERS, 1959-60 TO 1968-69

States	Index of Wage Levels in 1968-69 (1959-60=100)	Consumer Price Index of Agricultural Labourers in 1967-68 (1960-61=100)	Percentage Increase in Real Wage (Col 2/Col 3)	Percentage Increase in Demand for Labour Days as Percentage of Unemployed Labour Days due to Want of Work (Col 4/Col 5)	Rank of the State according to Col 4	Rank of the State according to Col 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Punjab	213	193	10	50.7	5	1
Maharashtra	174	183	-5	38.4	8	2
Mysore	199	187	6	22.6	6	3
West Bengal	189	241	-22	21.6	10	4
Gujarat	158	160	-1	16.6	7	5
Tamil Nadu	219	172	27	13.3	2	6
Kerala	218	172	26	12.7	3	7
Assam	176	219	-19	11.2	9	8
Andhra Pradesh	212	161	32	4.2	1	9
Bihar	297	250	19	3.2	4	10

1968-69. It should be remembered that, the estimates of total agricultural labourers and number of days unemployed relate to 1956-57.

Table 6 reveals that the HYVP in Uttar Pradesh completely absorbed the employed labour days that were due to want of work and 40 per cent of all unemployed labour days. Per hectare increase in demand for labour days was also highest in Uttar Pradesh. Punjab reduced its unemployed labour days which were due to want of work by 50 per cent and its per hectare increase in labour demand rose by 6. Per hectare increase as well as reduction in total unemployment were the lowest in Assam. In the next section the increase in demand for labour days will be compared with the changes in agricultural labourers' wage levels in the different States.

IV

Movement of Agricultural Labourers' Wages

During the first decade of planning, wages of agricultural labourers did not increase. Figures of agricultural wages for 10 States, given in the 'Economic Survey of Indian Agriculture' for 1959-60, reveal that, between 1952-53 and 1959-60, average wages declined by 4 per cent. During the same period, the Index Number of Wholesale Prices registered an increase of 19 per cent. Decline in real wages was, therefore, of the order of 28 per cent during this period.

Our estimate of the increase in demand for agricultural labour refers to the additional demand on account of HYVP in 1968-69. If we assume that

the pattern of labour utilisation in the non-HYV crops remained more or less the same between the late fifties and the late sixties, the increased demand for labour in the sixties over the fifties may be interpreted as being caused by the new strategy. We can then compare the change in the wage levels of agricultural labour with the change in demand for agricultural labour. For the purpose of this comparison, we have computed the percentage increase in average wage levels of agricultural workers of 10 States as in 1968-69 over 1959-60. The choice of base period and States covered was guided by the availability of comparable data in the Economic Survey referred to above. Wage data for Madhya Pradesh and Uttar Pradesh was not available for 1959-60, and so these two States had to be excluded in this comparison. The percentage increases in average wages were adjusted by the Consumer Price Index Number for Agricultural Labourers during 1967-68 (Base: 1960-61=100), for each of the States included. The increase in demand for agricultural labour days has been expressed as a percentage of the unemployed labour days that were due to want of work. The States have also been ranked according to the two measures of change. Conversion of increase in wage levels into real terms is not entirely satisfactory, because the base year of the Consumer Price Index Number of agricultural labourers is 1960-61, whereas the base year of the Wage Index is 1959-60. Secondly, the 1968-69 wage increase has been adjusted by the 1967-68 Consumer Price Index as that for 1968-69 was not available. Nevertheless, it is expected that

distortions caused by the two limitations mentioned above will not seriously affect relative positions of the different States. The calculations are shown in Table 7.

Table 7 reveals that changes in the wage levels of agricultural workers cannot be explained by the changes in their demand. This is not unexpected because, except in the States of Punjab and Maharashtra, increases in the demand for agricultural labour days are too small, compared to the available unemployed labour days, to exert any influence on the wage levels. Moreover, demand for agricultural labourers is highly seasonal, and analysis of wage level changes by seasons would perhaps show the wage-demand relation more clearly. Unfortunately, available data and time did not permit this type of analysis.

V

Concluding Remarks

Our analysis of the impact of HYVP on the rural labour market shows that, although the new strategy has substantially reduced unemployment among agricultural labourers in several States, its impact on the wage level of agricultural labourers is not very clear. The impact of HYVP on wages is likely to be felt most during the sowing and harvesting seasons. But available data and time did not permit us to analyse the effect of HYVP by the different seasons. Besides, the effects of introduction of tractors and other machinery, particularly in Punjab and Uttar Pradesh, have also not been taken into consideration in our analysis.

Notes

- 1 Farm Management in India: A study based on recent investigations, Department of Agriculture, Ministry of Food and Agriculture, Government of India, April 1966.
- 2 NSS Report Number 32 (Parts I and II): Cabinet Secretariat, Government of India.
- 3 Evaluation Study of the High-Yielding Varieties Programme: Reports for the Kharif 1967, Rabi 1967-68, Vol II, Kharif 1968, Rabi 1968-69. Programme Evaluation Organisation, Planning Commission, Government of India.
- 4 Fertiliser Statistics, 1968-69: Published by the Fertiliser Association of India.
- 5 Agricultural Labour in India: Report on the Second Inquiry, Vol I — All-India. Labour Bureau, Ministry of Labour and Employment, Government of India.
- 6 Economic Survey of Indian Agriculture, 1959-60: Directorate of Economics and Statistics, Ministry of Food and Agriculture.

Imbalances, Instability and Government Operations in Foodgrains

S K Ray

Regional imbalances and instability in foodgrains production have put progressively greater responsibility on Government for equitable distribution of foodgrains at reasonable and not glaringly disparate prices throughout the country.

Various measures have been tried to achieve this objective: rigid movement restrictions, intensive procurement and price control, followed by relaxations as the overall situation eased.

An attempt has been made in this paper to evaluate the effect of these measures.

[The views expressed in this paper do not necessarily reflect the views of the organisation for which the author works.]

INDIA'S performance in agriculture through the first three Five-Year Plans showed a rising trend. Foodgrains production increased at 3.66 per cent per annum during the 16-year period ending in 1964-65, a level which adequately covered corresponding population growth.

However, the situation was different when the States were considered individually. Increase in foodgrains production in all the States was not commensurate with the corresponding population growth and showed wide disparity. Moreover, the concentration of population among the States was extremely skewed—it varied from 400 persons per sq kilometre in the highly industrial State of West Bengal to 60 persons per sq kilometre in the semi-arid State of Rajasthan. As a result, some States were chronically deficit, some surplus and some were on the margin.

In a situation of plenty, these regional imbalances would not have mattered. Foodgrains would have moved from the surplus to the deficit areas and prices determined by the forces of demand and supply. Unfortunately, it was not a case of plenty. The additive effect of increased income resulting from planned development caused demand for foodgrains to increase faster than population growth. Per capita income index at 1948-49 prices increased from an average of 100.6 in 1951-53 to an average of 118.6 in 1961-63. During this period money incomes also rose faster than the rate of increase in the real national product, creating an inflationary pressure. The rise in national income, in real terms, in 1961-63 over the 1951-53 average was 41 per cent; the corresponding increase in terms of current prices was as much as 56 per cent. Further, with fairly inelastic demand for foodgrains, prices were more sensitive to the demand-supply gap and caused some unwarranted

shifts in acreage and production. The regional imbalances thus got worse.

The distribution of income gains arising out of planned development also was not uniform between individuals as well as between regions. With wide disparities in purchasing power, it was feared that the free market mechanism would fail to assure equitable distribution of available supplies to each State and every section of the population at reasonable prices. Welfare considerations thus necessitated Governmental intervention. Foodgrains distribution and policy became a primary concern of the Government of India.

Governmental policy on the food front was to keep in balance the utility matrix of the producers and the consumers. The efforts hinged on the desire to (i) maintain steady supply to consumers at reasonable prices; (ii) provide adequate incentives to producers to boost production; and (iii) stabilise relative prices. Various measures were tried, viz, rigid movement restrictions, intensive procurement and price control followed by relaxations as overall situation eased. In this paper, an attempt has been made to evaluate the effect of these measures against the desired objectives of the Government.

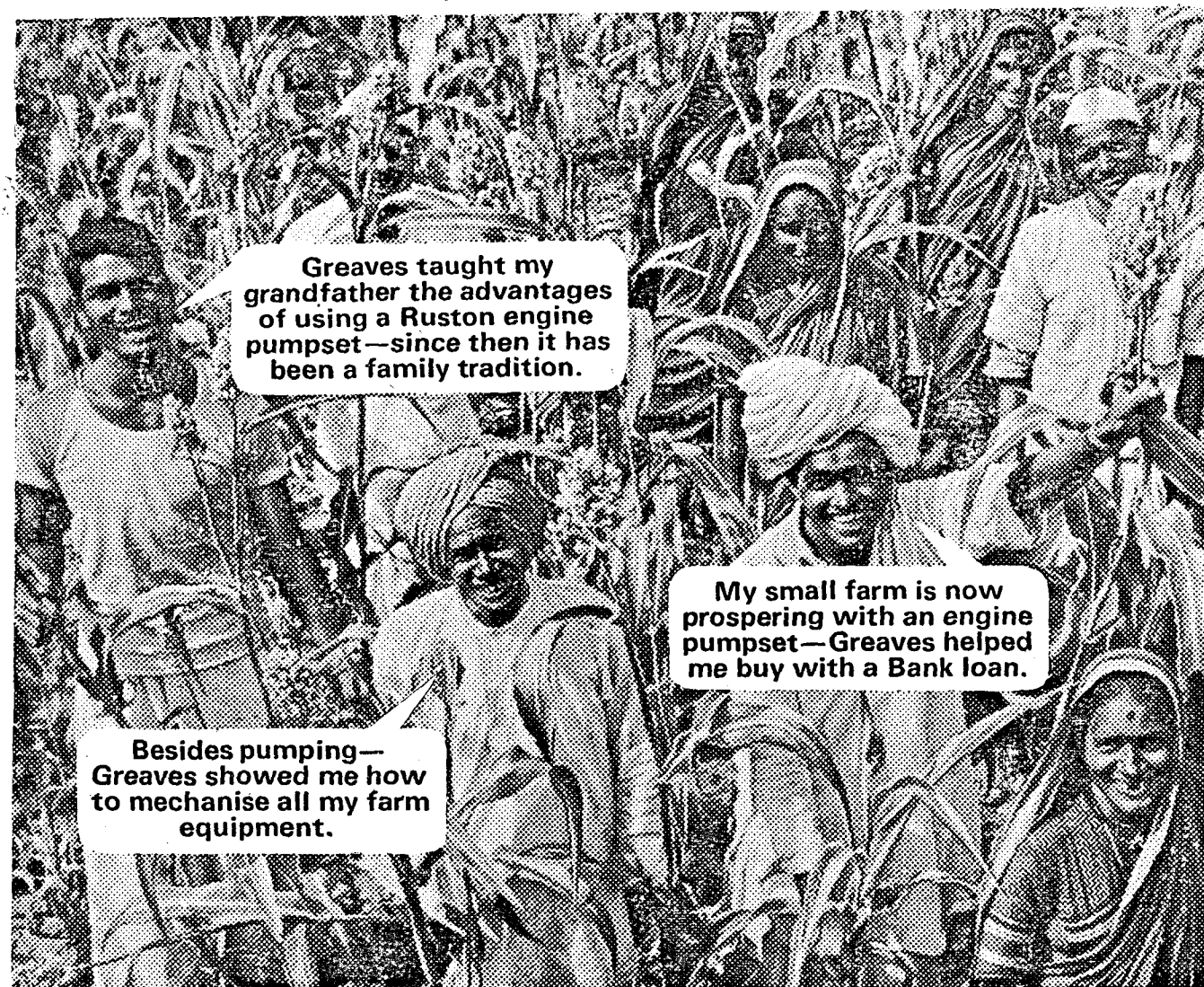
Trends in Production, Prices and Government Operations

During the 16-year period ending in 1964-65 the all-India cereals production level increased at a fast rate. However, the distance between the peak and the trough points also increased, and there was greater divergence from the trend line than was noticed during the pre-Independence period. Production declined from the peak on five occasions; changes varied between 2 and 10 per cent. Rice output fell from the peak on five occasions; the variation was 11 to 12

per cent. For wheat, the peak to trough decline was less in number but varied from 3 per cent to as high as 18 per cent. The severe drought of 1965-66 brought down cereals production by 19 per cent over the preceding year.

The intensity of the Government's involvement in foodgrains trade matched the instability in production. In the first half of the 1950s cereals prices were high. To arrest this trend single-State zones were formed and Government assumed monopoly over inter-State movement. By 1955-56, the impact of acreage increase under the First Five-Year Plan was felt; cereals production index rose from 90.3 in 1950-51 to 114.9 in 1955-56 (1949-50=100). The upward trend was manifest throughout this five-year period. One effect of this was a sharp fall in prices. By May 1955, cereals prices index dropped to 67 (1952-53=100). This made Government intervene and announce support prices for wheat, jowar, maize and gram. About 12,000 tonnes of cereals were purchased at an approximate total cost of Rs 27 million. Simultaneously, State zones were scrapped. For the first time during the post-War period, in 1955 and 1956, free movement of foodgrains was allowed throughout the country except in the case of the three metropolitan areas of Calcutta, Bombay and Madras. During the Second Five-Year Plan, although the general production trend was upward, fluctuation also increased. Cereals production declined from the preceding year's level in two out of the five years; in 1957-58 the drop was nearly 9 per cent. As a result, cereals price index increased sharply from 75.5 in 1955-56 to 106.8 in 1958-59. This prompted the Government to set up a 'Foodgrains Inquiry Committee' under the chairmanship of Asoka Mehta which recommended 'price stabilisation, control over trade and its progressive socia-

ASK THE FARMERS WHAT GREAVES DO



Greaves taught my grandfather the advantages of using a Ruston engine pumpset—since then it has been a family tradition.

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Greaves are not new-comers to the field of agriculture. They have been deeply planted in it for many years. Farmers identify Greaves with the well-known Ruston horizontal engines, portable Villiers and Mayur pumpsets, and electric pumpsets. Yet Greaves have kept pace with the growing need for sophisticated equipment for every type of farm operation. For lift irrigation schemes Greaves supply Ruston YDA aircooled engines and Mather & Platt high efficiency pumps. For drilling irrigation tube wells RMT Rotary-cum-Hammer drills. Also threshers, rice milling plants, etc.

But Greaves service to the farmers is not merely agricultural equipment. They have also taken the lead in organising bank credit schemes for needy farmers. Technical assistance and after sales service is another key note of Greaves engineering services. Their service engineers go to the remotest parts of the country to give technical advice and on the spot service. That is why Greaves generate confidence among the farmers.



GREAVES: A MULTI-MARKET ENTERPRISE

Agriculture-Automobile-Aviation-Chemicals-Construction
Defence-Export-Fisheries-Foundries-Minerals-Steels-Textiles

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lisation", and an "all out effort to step up production". In implementing the recommendations, the vital latter part, viz, that an all out effort be made to increase production, received less attention although the experience gained in food management was made use of and such operations continued.

From the end of 1959 food policy underwent a series of changes in keeping with the year to year situation. Larger zones were formed for rice and its procurement was confined only to surplus areas. Wheat procurement was gradually given up and by 1961 restriction on its movements was removed. These measures more or less proved satisfactory up to 1961-62 due to steady increase in production and substantial imports under PL 480 agreement. But in 1962-63 cereals production again dropped from the preceding year's level by more than 7 per cent and prices began to rise. In 1963-64 production increased but it was still less than in 1961-62. As a result, State zones were re-introduced and procurement operations intensified to cover both surplus and deficit States. In 1964 statutory prices were fixed for rice and wheat and

informal rationing was introduced in Kerala. In 1965 statutory rationing was enforced in cities with large concentrations of population and industrial areas. The rise in cereals prices, however, went on unabated. The index of cereal prices increased from 105.6 in 1962-63 to 116.3 and 139.3 in 1963-64 and 1964-65 respectively, and even with the bumper crop of 1964-65 cereals price index advanced by another 9 points in 1965-66. Part of this rise in prices could be attributed to other forces in the economy. The inflationary effects of development investments and the after effect of Chinese aggression aggravated the price rise.

Intra-year variation in cereals prices also underwent wide fluctuations. The seasonal cereals price index has a bi-model distribution.¹ It generally records a downward trend with the approach of the kharif harvest and comes to a low in December. It then begins to rise slightly and then fall to attain the seasonal low when the rabi crops start arriving into the market in April. Seasonal cereals price index tends to run within a narrow range from December to April. Transition

begins in May and by August prices generally touch the seasonal high. The co-efficient of variation in the de-seasonalised cereals price index varied from 1.41 in 1952 to 7.84 in 1967.² The three de-zoned years of 1961, 1962 and 1963 recorded a more or less constant intra-year price variability. In contrast, in rest of the years in which there were some form of Governmental intervention, intra-year price variability fluctuated. Except for 1952 and 1957, in the rest of these years intra-year price variability was more than the corresponding de-zoned prices. It would appear that Government intervention tended to increase intra-year price variability in the food-grains market.

Until 1964-65 Government's price support commitments were less positive in purpose. The policy was more consumer oriented. Huge quantities of wheat were imported to keep down price and distributed at subsidised prices. Zoning, compulsory procurement and credit restrictions all acted as disincentive to produce. Then came the two severe drought years of 1965-66 and 1966-67 which brought about a decline of 31 million tonnes

TABLE 1: GOVERNMENT OPERATIONS IN FOODGRAINS

Year	Output ('000 tonnes)*	Opening Stock ('000 tonnes)	Procurement ('000 tonnes)	Distribution ('000 tonnes)	Import		No of Fair Price and Ration Shops
					Quantity ('000 tonnes)	Value † (Rs million)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1951	54,922	741	3,826	7,991	4,801	2167.9	—
1952	55,508	1,330	3,477	6,800	3,926	2090.7	—
1953	61,673	1,948	2,094	4,598	2,035	859.5	—
1954	72,186	1,465	1,430	2,154	832	485.3	—
1955	70,686	1,667	132	1,636	513	331.1	—
1956	69,210	921	37	2,082	1,372	563.4	—
1957	72,337	319	295	3,050	3,620	1623.9	37,591
1958	66,504	1,175	526	3,980	3,210	1205.1	45,631
1959	78,687	908	1,808	5,160	3,851	1414.1	51,671
1960	76,669	1,398	1,275	4,937	5,119	1928.4	50,910
1961	82,018	2,801	541	3,977	3,486	1295.6	47,818
1962	82,706	2,636	479	4,365	3,629	1410.9	50,523
1963	80,151	2,281	750	5,178	4,536	1836.0	60,123
1964	80,642	2,259	1,430	8,665	6,252	2662.5	102,193
1965	(a) 88,996	1,016	4,031	10,079	7,439	2903.2	109,881
1966	(a) 72,030	2,079	4,009	14,085	10,311	(d) 5231.3	135,977
1967	(a) 74,231	2,216	4,462	13,166	8,659	(d) 5321.6	140,475
1968	(b) 95,588	1,934	6,782	10,554	(c) 5,676	(d) 3612.0	137,686

Sources (1) Bulletin on Food Statistics, 1969.

(2) Estimates of Area and Production of Principal Crops in India, 1968-69.

* Output figures relate to agricultural year (July-June); 1951 figure corresponds to the output in 1950-51, and so on for subsequent years.

† Estimated.

(a) Partially revised.

(b) Final estimates.

(c) Provisional and subject to revision.

(d) The relatively higher value of imports is due to the devaluation of the rupee on 6th June 1966.



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in foodgrains production for the two years together. This resulted in pushing up of all-India cereals price index from 148.0 in 1965-66 to 174.4 in 1966-67 and in 1967-68 it was 210.7. To face the rising demand even larger quantities of foodgrains were imported and distributed through fair price shops. The mounting cost of subsidies met out of the public exchequer—it was Rs 1,300 million in 1966-67—in spite of concessional imports made under PL 480 together with the severe drought situation, created a real crisis. This exposed the public policy to intense scrutiny and criticism.

Statistics will help to illuminate the trends in Government operation in foodgrains (Table 1). During the 18-year period ending in 1968, the Government purchase of foodgrains varied from 37,000 tonnes to as high as 6,782,000 tonnes. The intensity of procurement was highly negatively correlated with the output level indicating thereby the Government's concern to ensure regular supply to the consumers in the event of any short-fall in production. This was also evident from the volume of public distribution which steadily increased from 1.6 million tonnes in 1955 to 14.1 million tonnes in the drought year of 1966. The number of fair price shops multiplied four times and by 1967 there were more than 140,000 shops. Imports also grew steadily and in the 18-year period a total of 79.3 million tonnes were imported at a cost of approximately Rs 37 billion.

Effect on Consumption Availability and Prices

From 1951 to 1968, the per capita availability of foodgrains at the all-India level recorded a rising trend though punctuated by sharp fluctuations. In 9 out of the 18 years availability declined from the preceding year's level, the highest being 15.2 per cent in 1966. The per capita availability of foodgrains in 1951-55, 1956-60 and 1961-65 averaged at 152.6, 160.7, and 167.4 kg respectively per year; the corresponding co-efficient of variations around the mean were respectively 6.4, 4.2 and 3.3 per cent. If the calculations were based on net domestic availability only, the averages would have been much lower and the variability around them higher, especially in the last two quinquenniums. In the two drought years of 1965 and 1966, per capita availability averaged at 145.6 kg per year, 13 per cent below the 1961-65 average. Imports made this possible. Otherwise, the figure would have declined to 126.7 kg per year, i.e., a fall of more than 24 per cent from 1961-65 average.

The above is an all-India picture. It does not throw light on the State-wise situation. State-wise per capita availability of cereals in kg per year from 1961 to 1968 were computed by taking into account the State-wise procurement and distribution figures during the same period (Table 2). The State-wise availability data were also

affected by year to year variations. The highest variability was in Kerala (22 per cent with a range from 65.1 to 118.7 kg/year) followed by Gujarat and Madhya Pradesh (15 per cent each with ranges from 81.1 to 126.9 and 131.1 to 211.9 kg/year respectively). Although the variability in Madhya Pradesh was quite high, its average availability was one of the highest among the States. The highest average availability was obtained in Punjab and Haryana, and even in the two severe drought years their availability was nearly 15 per cent higher than the all-India average. West Bengal and Bihar fared the best and their average availability and the variability figures compared well with the all-India average.

State-wise variability was highest during 1961 to 1963. In these years there were no movement restrictions and private free trade was allowed. This situation unfortunately widened the gaps between the surplus and deficit States in per capita consumption, the range varying from 69.6 to 211.9, 65.1 to 200.5 and 65.5 to 148.9 kg/year in 1961, 1962 and 1963, respectively. The State-wise variability started to decline from 1964 and at the peak of Government operation in 1966, it was at its lowest value of 14 per cent and the per capita consumption ranged from 103.8 kg/year in Kerala to 174.3 kg/year in Punjab.

To examine the effect of Government's public distribution on State-wise co-efficient of variability in per

TABLE 2: STATE-WISE PER CAPITA NET AVAILABILITY OF CEREALS (KG/YEAR)

States	1961	1962	1963	1964	1965	1966	1967	1968	Co-efficient of Variation (Per Cent)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	149.4	176.0	139.5	151.4	145.7	132.4	155.6	141.5	8.60
Assam	137.1	137.8	125.9	139.8	136.8	138.6	116.4	134.0	5.70
Bihar	126.5	122.4	119.6	125.0	123.1	112.4	91.6	127.9	9.02
Gujarat	81.1	106.0	93.3	113.9	136.9	109.9	106.5	126.9	15.10
Kerala	69.6	65.1	65.5	81.5	118.7	103.9	102.8	98.8	22.00
Madhya Pradesh	211.9	197.5	179.1	194.5	193.6	139.2	131.1	185.6	14.91
Maharashtra	163.9	138.3	133.7	149.1	151.0	120.7	126.4	139.0	9.05
Mysore	135.7	138.7	139.4	144.0	150.7	116.5	131.3	144.3	6.76
Orissa	189.8	187.7	184.6	207.1	196.5	152.1	169.6	172.3	8.60
Punjab and Haryana	206.9	200.5	184.9	201.1	195.7	174.3	160.2	185.8	7.58
Rajasthan	145.4	174.9	159.0	146.9	162.7	138.1	143.7	175.2	8.93
Tamil Nadu	141.2	150.6	144.2	148.1	142.5	134.5	134.6	143.6	4.00
Uttar Pradesh	131.6	133.0	121.4	117.7	130.8	113.2	112.7	132.4	6.69
West Bengal	154.6	139.7	140.7	149.9	157.6	150.8	133.2	147.8	5.11
Co-efficient of Variation (per cent)	26.42	24.37	23.28	15.22	16.27	14.25	16.58	16.14	

Source: Computed from the various issues of *Bulletin on Food Statistics* and using the mid-year population estimates as provided by the Registrar General's Office.

capita availability, a linear regression line was fitted to the 1961-68 data with the latter as the dependent variable. The estimated equation was (standard error in parentheses)

$$Y = 28.72 - 1.10X \quad (R^2 = 0.82) \quad (0.05)$$

where

Y = Co-efficient of variation in per capita availability among the States.

X = Government distribution of cereals (million tonnes).

The effect of Government distribution on State-wise co-efficient of variation in cereal availability was highly significant. If there were no public distribution, State-wise variability would have been as high as 29 per cent. On an average a 10 per cent increase in distribution reduced the variability by 5 per cent.

Government control measures which significantly reduced the food deficit in deficit States, and ensured equitable distribution all round at fair prices raise two issues for examination: (i) how the food was distributed among the different sections of people within the States, and (ii) at

what prices they were offered. Quantity data are not available to examine the first question, but with the help of available price indicators it is possible to examine roughly the above two issues.

The working class food index (base 1951=100) in 1968 was more than double the 1956 level. Between 1951-1955 it averaged at 97.7; the corresponding averages in the next two quinquenniums were 112.7 and 138.1 respectively. In fact, the steep upward trend in food price index started in 1964. From 1964 to 1967, the percentage increase in the consumers' food price index from the previous year's level fluctuated between 10.4 and 16.8. The good crop in 1967-68 somewhat reduced the steep upward price rise. Apparently, Government operations had little or no effect in arresting the upward rise in the consumers food price index.

Government distribution policy was more aimed at meeting the very vocal urban demands than the demand of people in small towns and rural areas. As a result, at times of shortages and scarcities, significant deficiencies in supply occurred more in rural than in

urban areas. The best indicators of the magnitudes of the supply deficiencies in the rural and urban areas can be obtained by comparing the two State-wise consumer food price index series, one for agricultural labourers and the other for industrial workers. Except for 1963 the co-efficient of variation in the State-wise agricultural labourers food price index series was more or less constant up to 1964 (Table 3). The variation in 1965 more than doubled the 1964 variation; it declined in 1966 but doubled again next year. The variability in the agricultural labourers food price index, both between years and between States, was statistically significant. The increase in variability in 1963 and 1965 were due to drop in production unaccompanied by any public distribution in the rural areas. A large number of fair price shops were opened in 1966 in rural areas which helped to reduce the price variability. However, public distribution was withdrawn substantially from the rural areas in 1967 and as a result price variability again increased.

State-wise consumers food price index for industrial workers also record-

TABLE 3: CONSUMER FOOD PRICE INDEX

States (1)	1961 (2)	1962 (3)	1963 (4)	1964 (5)	1965 (6)	1966 (7)	1967 (8)	1968 (9)
A For Agricultural Labourers (July 1960 to June 1961 = 100)								
1 Andhra Pradesh	100	102	102	113	132	158	168	—
2 Assam	98	103	112	123	143	188	228	—
3 Bihar	102	107	111	136	199	209	295	—
4 Gujarat	103	108	102	122	118	149	178	—
5 Kerala	102	108	108	115	137	169	182	—
6 Madhya Pradesh	101	109	112	136	143	199	257	—
7 Maharashtra	93	106	104	136	162	187	198	—
8 Mysore	101	102	104	130	144	200	201	—
9 Orissa	99	112	136	144	143	196	221	—
10 Punjab	105	107	107	133	149	158	218	—
11 Rajasthan	97	95	90	112	147	161	197	—
12 Uttar Pradesh	—	—	102	150	177	187	284	—
13 West Bengal	100	113	136	136	148	200	247	—
Co-efficient of Variation (per cent)	5.0	4.4	8.2	5.4	14.8	8.6	17.6	—
B For Industrial Workers (1960=100)								
1 Andhra Pradesh (Guntur)	103	112	114	125	133	156	177	182
2 Assam (Digboi)	104	108	112	126	143	170	214	213
3 Bihar (Jharla)	99	101	109	130	156	179	222	200
4 Gujarat (Ahmedabad)	101	103	105	124	135	150	189	180
5 Kerala (Mundakayam)	105	109	108	127	144	160	182	212
6 Madhya Pradesh (Indore)	107	112	113	137	149	169	203	199
7 Maharashtra (Bombay)	—	—	—	—	—	150	171	183
8 Mysore (Bangalore)	105	109	110	127	149	173	188	196
9 Orissa (Barbil)	95	98	116	124	125	184	200	201
10 Punjab (Amritsar)	102	105	108	129	142	167	205	219
11 Uttar Pradesh (Kanpur)	98	102	107	142	164	161	194	198
12 West Bengal (Calcutta)	99	105	113	125	131	153	172	188
Co-efficient of variation (per cent)	3.8	4.4	4.3	2.6	7.8	6.5	8.8	2.0

Source: Bulletin on Food Statistics, 1969.

ed a similar pattern, though the fluctuations here were less pronounced. This was because of the increasing concern to feed them at reasonable prices. With the enforcement of strict control measures in 1964, the ratio of State-wise co-efficient of variation in agricultural labourers index to industrial workers index, with 1961 as base, was always greater than unity, indicating the adverse effect of control measures on rural areas. When compared to 1961, the variability in 1965 in the agricultural labourers food price index increased by 196 per cent; the corresponding increase for the industrial workers was only 105 per cent.

Such public policy adversely affecting agricultural labour can be questioned. About one-fifth of the total population lives in urban areas. A substantial number of these are employed in manufacturing, trade and commerce, transport and communications, and construction and enjoy pay revisions according to changes in the cost of living index. On the other hand, rural sector is crowded by a large number of unemployed and underemployed and suffer most from rising prices. Moreover, rural income is highly correlated with production. It is apparent that the rural sector which includes a disproportionate share of low income people in the country

could buy less because of the rise in prices. Restraining consumption availability in the rural sector to safeguard the interests of the more vocal urban consumers is against declared public policy of ensuring equitable distribution.

Effect on Producers

Reasonable price to producers is a term which has had wide verbal circulation in India but very limited empirical content. The need for 'high' and 'stable' prices is obvious if an economic environment conducive to producing more is to be provided. Presumably 'high' means 'high' relative to other prices or to production costs and 'stable' means that the threat of rapidly falling harvest prices is guarded against. However, too high prices contribute to (i) inflation through pressure on wages via food prices and on raw materials via non-food agricultural prices, and (ii) financing problems if the expenditure bill is large. This latter concern implies that the quantity as well as price of Government support is important.

Governmental decisions in the past were based on the assumptions of a near zero level supply elasticity and an inelastic demand. It is argued that production responds slowly to price

but price responds swiftly and inexorably to public expenditures outrunning savings and taxes or current fluctuations in supplies. As a result, past Governmental actions were more concerned about ensuring a steady flow of supplies at 'reasonable' prices to the consumers, through domestic production supplemented by voluminous imports whenever production suffered a setback. Consumers were generally assured of a steady supply while a steady income to the producers remained an elusive promise.

Perhaps the most simple method to examine the degree of instability in the income of producers is to analyse the terms of trade for agriculture. The basic idea is that the cultivator compares his returns to his costs. Or, in other words, he is concerned with what he can buy for himself after selling what he produces.

For a true picture of the parity of the agriculturists for policy decisions it would be necessary to develop a parity index with reference to a recent base and based on such prices which provide an approximation to the prices accruing to the producers. To give the agricultural commodities the same buying or purchasing power as they had in the base period, parity prices for any year 't' are generally derived from a relation of the form

TABLE 4: STATE-WISE PARITY PRICES FOR RICE AND WHEAT

(1)	1961-62* (2)	1962-63 (3)	1963-64 (4)	1964-65 (5)	1965-66 (6)	1966-67 (7)	1967-68 (8)	1968-69 (9)
A Index of Prices Paid	122.3	124.0	131.6	134.5	140.2	152.6	164.4	168.7
B Parity Index	100.0	101.4	107.6	110.0	114.7	124.7	134.4	137.9
Parity Price for Rice (Rs per quintal)								
1 Andhra Pradesh	61.97	62.84	66.67	68.17	71.08	77.28	83.28	85.46
2 Assam	54.38	55.14	58.51	59.82	62.38	67.81	73.09	74.99
3 Bihar	47.82	48.49	51.45	52.60	54.85	59.63	64.27	65.94
4 Gujarat	65.02	65.93	69.96	71.52	74.58	81.08	87.39	89.66
5 Kerala	66.24	67.17	71.27	72.86	75.98	82.60	89.03	91.34
6 Madhya Pradesh	48.49	49.17	52.17	53.34	55.62	60.47	65.17	66.87
7 Maharashtra	56.67	57.46	60.98	62.34	65.00	70.67	76.16	78.15
8 Mysore	62.34	63.21	67.08	68.57	71.50	77.73	83.78	85.97
9 Punjab and Haryana	58.18	58.99	62.60	64.00	66.73	72.55	78.19	80.23
10 Rajasthan	63.46	64.35	68.28	69.81	72.79	79.13	85.29	87.51
11 Tamil Nadu	56.96	57.75	61.29	62.66	65.33	71.03	76.55	78.54
12 Uttar Pradesh	40.67	41.24	43.76	44.74	46.65	50.72	54.66	56.08
13 West Bengal	56.93	57.73	61.26	62.62	65.30	70.99	76.51	78.51
Parity Price for Wheat (Rs per quintal)								
1 Bihar	51.25	51.96	55.14	56.38	58.78	63.91	68.88	70.67
2 Gujarat	54.66	55.42	58.18	60.13	62.70	68.16	73.46	75.38
3 Madhya Pradesh	42.25	42.84	45.46	46.48	48.46	52.68	56.78	58.26
4 Maharashtra	52.97	53.71	57.00	58.27	60.76	66.05	71.19	73.04
5 Punjab	41.90	42.49	45.08	46.09	48.06	52.25	56.31	57.78
6 Rajasthan	44.13	44.75	47.48	48.54	50.62	55.03	59.31	60.85
7 Uttar Pradesh	39.60	40.15	42.61	43.56	45.42	49.38	53.22	54.61

* Average Farm (Harvest) Prices as published in the Economic Survey of Indian Agriculture, 1965-66.

(It/Io)X_o, where 'I' denotes the index of prices paid by the farmers, 'X' the unit price of the commodity and the subscript 'o' stands for the base period.

The parity index has not yet been developed in India. We have tried here to derive a series from the available data that would approximate to the parity index.

State-wise average farm harvest prices are considered here as measures of the prices received by the farmers. Ideally, the prices paid by the farmers can be obtained from a weighted average of the farmers' domestic expenditures and farm cultivation costs. In the absence of adequate information on these two items one can at best crudely approximate it by the prices of some principal commodities generally purchased by the agriculturists. Six items have been taken into account here. These are fertilisers, iron and steel manufacturers, cement, leather, cotton manufacturers, and kerosene oil. A simple average of the index numbers of wholesale prices of these items is taken to represent the index of prices paid by the farmers, although a weighted average would have been a better choice. This same all-India index was used in all the States as prices paid by the farmers.

Table 4 shows the State-wise parity prices of rice and wheat based on the prices received and prices paid by the farmers as defined above from 1962-63 to 1968-69. The year 1961-62 is taken as the base.

It would be of interest to compare the above parity prices for rice and wheat with the prices actually received by the farmers in the different States in those years. Farm harvest prices of rice was higher than the parity price in 1962-63 in Assam, Maharashtra, Mysore, Rajasthan and West Bengal. In 1963-64 they were higher than the parity prices in Assam, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and West Bengal. In 1964-65 they were higher in all the States except in Andhra Pradesh, Assam and Madras. On the other hand, wheat prices were below the parity prices in all the States in 1962-63 but ruled much higher than the latter in the next two years. The transition to favourable terms of trade for agriculture started from the beginning of the agricultural year 1963-64 in more or less all the States of India.

The setting up of the Agricultural Prices Commission in 1964 and the introduction of procurement prices significantly helped to raise the producers' prices. In 1964-65 the Jha Committee recommended procurement prices for standard variety of rice within a range of Rs 55.00 per quintal in Madhya Pradesh to Rs 66.00 per quintal in Kerala. The State Governments, however, fixed the prices at higher levels and the procurement prices of rice in 1964-65 ranged from Rs 58.23 per quintal in Madhya Pradesh to Rs 76.18 per quintal in Kerala. These prices were on the higher side of the computed parity prices. The

procurement prices of rice as fixed by the State Governments ranged from Rs 60.00 to Rs 76.18 per quintal in 1965-66, Rs 64.82 to Rs 93.75 per quintal in 1966-67, Rs 70.00 to Rs 107.77 per quintal in 1967-68 and Rs 72.69 to Rs 97.65 per quintal in 1968-69. A similar trend was also noticed in the procurement prices fixed for wheat.

A healthy outcome of the production shortfalls in the mid-sixties was the recognition of incentive prices as instruments for higher production. However, it appears from the above that lobbying by the agriculturists and the politicians from 1965 had unduly pushed the relative prices of agricultural commodities. There is a danger in it as it has been rightly pointed out recently by the Agricultural Prices Commission. Analysis of the past and present trend in relative prices leaves one with a feeling that Indian agriculture is as much dependent on the vagaries of nature as of the policy-makers.

Effect on Market Prices

Market prices are normally determined by the forces of demand and supply. If supplies are adequate and foodgrains are allowed to move freely, the geographic structure of market prices would be determined only by the cost of transportation, and other factors affecting costs and returns from movements of supplies. In India, however, geographic structure of market prices have recorded wide varia-

TABLE 5: ANNUAL AVERAGE WHOLESALE PRICES OF RICE AND WHEAT IN SELECTED MARKETS

							(Rs per quintal)
State (1)	Market (2)	1961 (3)	1962 (4)	1963 (5)	1966 (6)	1967 (7)	1968 (8)
Rice							
Bihar	Jayanagar	57.57	58.04	61.68	127.20	176.24	129.94
	Gaya	49.51	51.77	60.78	124.24	168.57	120.44
Orissa	Dumka	55.77	58.36	64.63	120.68	170.85	128.60
	Balasore	44.17	54.76	66.08	76.68	90.58	119.88
	Sambalpur	38.67	47.76	62.42	88.00	87.16	101.92
Uttar Pradesh	Jeypore	35.22	42.06	67.19	82.29	76.60	93.50
	Nowgarh	50.03	47.59	47.86	122.83	167.25	120.50
West Bengal	Saharanpur	53.24	50.06	54.21	126.04	149.37	109.58
	Varanasi	55.84	54.78	54.78	133.75	160.67	121.08
	Sainathi	51.52	59.61	77.60	122.00	153.17	127.25
	Matiahat	53.75	63.63	79.40	141.91	209.23	178.61
	Contai	48.64	60.21	78.03	127.95	142.60	161.92
Wheat							
Bihar	Khagaria	48.37	48.92	49.96	107.08	136.46	97.08
Gujarat	Rajkot	51.20	51.02	51.50	72.66	100.53	88.17
Punjab	Abohar	39.41	42.49	40.34	62.83	77.69	83.39
Rajasthan	Kotah	43.72	41.69	39.51	71.57	96.27	81.69
Uttar Pradesh	Hapur	41.86	40.70	42.85	79.06	121.64	82.56

Source: Bulletin on Food Statistics.

TABLE 6: ANALYSIS OF VARIANCE OF RICE AND WHEAT MARKET PRICES

Source	Degrees of Freedom	1961-63		1966-68	
		Sum Squares	Mean Squares	Sum Squares	Mean Squares
(1)	(2)	(3)	(4)	(5)	(6)
Rice					
Year	2	12.67	6.33	5559.74	2779.87*
Markets	11	1323.10	120.28*	22716.08	2065.10*
States	3	10.25	3.42	19301.00	6433.67*
Within States	8	1312.85	164.11	3415.08	426.88
Residual	22	2033.48	92.43	6518.73	296.30
Total	35	3369.25		34794.55	
Wheat					
Year	2	0.05	0.02	2063.00	1031.50*
States or Markets	4	285.49	71.37*	2588.64	647.16**
Residual	8	17.54	2.19	1650.13	206.27
Total	14	303.08		6301.77	

* Significant at 5 per cent level.

** Significant at 10 per cent level.

bility depending upon the gaps in regional supplies and demands.

Prices are bound to rise in periods of shortages. The rise would be uniform in different markets if traders act purely on humanitarian considerations. The assumption is that, in India, for private traders, profit motivation outweighs social and humanitarian aspects and hence Governmental intervention is a must. On the other hand, a large number of professional experts have vigorously advocated the cause of the traders.

Government's approach to this problem in the past followed the middle path with drifts on either side depending upon the severity of the situation. In 1964 and 1965 prices in all markets were controlled and private traders were practically not allowed to operate. In other years, action varied from such measures as zoning, credit restrictions, etc., to considerable relaxation of all these.

If we accept the official belief, the question is: Were the various control measures of the Government able to considerably solve the problem? To examine this, past price data of rice and wheat from several markets are analysed here. The objective is to examine how price movements of these two crops reflected regional supply-demand conditions in the past

and to what extent private traders and/or Government are responsible for perturbations in the market.

Two periods, one from 1961 to 1963 when there was free movement of foodgrains and the other from 1966 to 1968 with movement restrictions, were selected to examine the above question. The two periods were separated by two intervening years of 1964 and 1965 of complete price controls in the primary markets. The actual picture in these two years is difficult to obtain unless one analyses the black market prices. For rice, market price data from 12 markets — 3 each from the four eastern States of Bihar, Orissa, Uttar Pradesh and West Bengal—were used to examine the regional price variability. Price data from five markets for wheat—one each from Bihar, Gujarat, Punjab, Rajasthan and Uttar Pradesh—were used for similar purpose. The prices were as given in Table 5. To examine the effect of food zones on each State and on the markets, the markets were grouped according to the States to which it belonged for both the periods and an analysis of variance made.

In 1961-63 the yearly variation in rice prices was insignificant and prices were practically stable in these years (Table 6). Most of the variation came

from differences in market prices. However, variation in prices among the States was also insignificant. The major variation in prices in those years occurred from market to market within the State. Also, the prices in the markets were subjected to large random fluctuations, in fact it was more than 60 per cent of the total variation. Both the yearly and State-wise variations were statistically insignificant. The insignificant effect of the latter is important to note as it indicates the beneficial effect of free movement of foodgrains on regional prices.

A completely different picture emerged when the same analysis of 1966-68 rice price data was made. As was expected, yearly variation in prices steeply increased and was nearly 16 per cent of the total. What is more important to note is a sharp rise in market price variability of which major share was taken by the States. Of the 65 per cent of the total variation in market prices, 55 per cent was accounted by the States; when compared to 1961-63, the variability in market prices within the States was significantly reduced. Also, the residual or the random component in the price variation was significantly reduced, being roughly 19 per cent of the total variation. Both the yearly and State-wise variations were statistically highly significant. Similar results were obtained for wheat and are also shown in Table 6.

The conclusions that emerge from the above analysis speak against the adverse effect of food zones on regional prices. Food zones helped to reduce the market variability in prices within the States. Procurement and various other policy measures followed in 1966-68 significantly helped to reduce the erratic market price movements within the States. If we assume that fluctuations in market prices within the States are mainly due to the anti-social activity of the traders then credit is due to the Government for introducing procurement and other support measures. No one has raised the question of the wisdom of these measures. The point is whether food zones helped to attain the Government's objective of equitable distribution at reasonable and not glaringly disparate prices to all the States. As indicated above, food zones actually accentuated regional price differences. Prices were depressed in surplus States but there

was an offsetting increase of prices in deficit States.

The wisdom of restrictions on movements to save the consumers from the anti-social activity of the traders can thus be challenged. It appears that a system of open market purchases at market prices in competition with trade and allowing the foodgrains to move freely across the country would have been a better choice. Government's problem, however, needs to be recognised. It has certain commitments for public distribution, mostly in urban areas. This is understood. The question is, should the social benefit of one-fifth of the country's population weigh more heavily than the benefit of the rest with the policy-makers?

Conclusion

Regional imbalances and instability in foodgrains production have increasingly put greater responsibility on the Government for equitable distribution of foodgrains at reasonable and not glaringly disparate prices throughout the country. The Governmental efforts hinge on the desire to (i) maintain steady supply to consumers at reasonable prices, (ii) provide adequate incentives to producers to boost production, and (iii) stabilise relative prices. The various policy instruments that were tried from time to time in the past were unable to keep in balance the utility matrix of the producers and the consumers. Government's price support commitments were less positive in purpose until 1964-65. It was only after the two severe droughts in 1965-66 and 1966-67 that the need of incentive prices for increased production was given due importance.

Looking from a purely distribution aspect, various Government control measures in the past did significantly reduce the food deficit in the deficit States. However, it failed to make equitable distribution among the different sections of people within the States at reasonable prices. Government's distribution policy was more aimed at meeting the demands of people in the urban areas than the demands of those in small towns and rural areas. This resulted in restraint on consumption availability in the rural sector.

The ratio of State-wise co-efficient of variation in agricultural labourers' food price index to industrial workers' food price index, with 1961 as base,

was always greater than unity. This went against the declared policy of ensuring equitable distribution.

Notes

- 1 Seasonal cereals price indices for January through December based

on monthly price data from 1950 to 1968 were obtained as follows: 98.5, 98.7, 97.5, 97.4, 98.2, 99.7, 102.5, 104.5, 103.4, 101.7, 100.7 and 97.7.

- 2 De-seasonalised series was obtained by dividing the original monthly cereals index by the corresponding seasonal index.

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Increased Income and Improved Nutrition

A Shibboleth Examined

Alan Berg

The relationship between growth of per capita income and elimination of malnutrition rests upon the following assumptions:

- (a) Increase in overall per capita income leads to increase in per capita income of the poor.
- (b) Increase in per capita income of the poor leads to increase in the amount they spend on food.
- (c) Increase in the amount spent on food by the poor leads to improvement in nutrition.
- (d) Improvement in nutrition of a poor family means improvement in nutrition for the pre-school aged members of the family.

This paper suggests that each of these assumptions is open to question. Moreover, even if the assumptions are valid, increase in per capita income may not provide the necessary nutritional improvement within the life-span of the needy. Nor would dependence on income growth necessarily be the most effective way.

To determine the most effective way of eliminating malnutrition we must look differently, and more systematically, at the factors affecting nutritional wellbeing, especially of children.

What is being suggested here is a conceptual re-examination of the problem of improving nutrition so as to bring about an approach to the problem both more systematic and more in tune with the complex realities of contemporary decision-making.

IN the development business, there is a simple, conventional answer to the question "How do you provide better diets to children in poor societies?" More income. With economic growth and related increased incomes, nutrition problems, we are told, will solve themselves.

Money does affect diet, and presumably it usually affects it for the better. Enough exceptions have been noted, however, to suggest that this improvement is not automatic. Further, for planning purposes, knowledge of the degree of income/dietary improvement is only useful when viewed in the context of base incomes and base diets. In this light, examples suggest cause for concern over the theory that economic growth is the answer to malnutrition.

This paper will begin by examining this theory, which sometimes is used to justify limited concern and involvement in nutrition-oriented policies and activities. It will then attempt a conceptual approach to determine nutrition strategy in a country, and follow with a brief discussion of operational philosophy during the period this determination is under way. Also considered will be those factors which, in a practical sense, most influence what may emerge as a nutrition programme.

Most of the following observations are from India, and it is recognised that what is true for India may not be true elsewhere. It is also possible that within India, the examples presented are exceptions to the rule. I was, however, frequently confronted with diet situations which seemed to defy the ac-

cepted income/diet laws, and in examining the reasons for this, some unusual and unexpected information emerged.

I

Perhaps an appropriate starting point in analysing the validity of the theory that increased income will suffice is to view it within the context of a specific society. Given the trends indicated by the 'income elasticity of demand' tables, what are the realistic prospects of the poor of a country reaching sufficient income to ensure reasonable nutrition? A composite examination of 220 Indian diet surveys,¹ coupled with national economic projections, suggests that unless a new nutrition strategy is adopted and implemented, at least a generation will pass before many Indians can afford an adequate diet. The data suggest that per capita disposable income must reach from \$4 to \$5 a month to achieve an acceptable diet. Between 60 and 70 per cent of India's urban dwellers fall below this line, and the percentage is higher in the rural population. One-third of India's families would need at least twice their current incomes to attain adequate diets on the basis of rising earnings alone.² Even on the assumption of a three per cent annual per capita real income rise, it would take 30 years for one-third of India's families to reach the required level. Given population growth trends, this means a 5.5 per cent annual national growth rate — compared to a 3.5 per cent growth trend over the last 13 years. These calculations ignore unequal distribution at various income

levels, and it should be noted that incomes may not be moving upward for large numbers of those most in need of help. There is increasing recognition that the fruits of development, for example of the agricultural revolution, may not be adequately reaching some poorer groups of the society.³ There is the further matter of maldistribution within families. If, as we suspect, the deficiencies of pre-schoolers are proportionately greater than in other family members, double or even triple the above income might be required to eliminate most of the deficiencies — and even then vitamin A and perhaps iron deficiencies would remain. If the average per capita income of 162 million people will not reach the minimum level until the year 2000, it could be 20 years beyond that before the average would be high enough to meet the average pre-school child's nutritional requirements. And that will still be average.

A second point is that even for those now or soon to be realising an increased income, it should not be assumed more money will automatically lead to a better diet. The traditionally accepted principle that better diet is a function of increased income undoubtedly applies in certain societies and at certain income levels. However, it has been my observation that in some situations there actually may be an inverse correlation between income and nutrition when income increases are modest and start from a low base. (As a non-economist, I am not equipped to explain why this does not jibe with the previously mentioned study. What I

and others⁴ have seen does suggest that there may be value in someone taking another look at the common assumptions and basic measurement devices.) To many poor — and poorly nourished — an increase in wealth brings with it access to the monetised part of the economy, and such items as ballpoint pens and transistor radios compete, for the first time, with what had been a fixed food income. In Mysore, cash received from home-grown vegetables and milk from the family cow was spent on clothes and the cinema.⁵ In villages near Delhi, income earned by low caste families from the sale of eggs was used to buy non-food prestige items.⁶ In Kerala, 90 per cent of the village milk was sold in the towns.⁷ The villagers were compensated monetarily but not nutritionally.

MORE, BUT NOT BETTER

Even when expenditures for food are increased, more income does not always lead to improved diet. Many rightly point to the substantial increases in milk purchases that come with higher incomes. But when looking beyond, we also see that related to increased income is a dramatic decline in breast feeding.⁸ Sixty per cent of lower income Gujarati women (under \$2 per capita income per month) continue to breast feed their children beyond six months. This figure drops sharply as incomes rise. Only 8 per cent of higher income mothers (above \$9) offer the breast at the same period. The nursing Indian mother produces approximately one-half litre of milk a day.⁹ A comparable quantity of commercial animal milk would cost more than \$2 a month, a substantial portion of income. Our calculations suggest that a mother moving up the medium income ladder purchases only one-third as much milk (and most of this used in tea) as is lost due to early weaning.

People spending more for food may eat more, but not necessarily better. The common example in India is the shift with the first increment of income from sorghum or millet to rice and from home-pounded rice to polished rice; the latter is aesthetically more pleasing but nutritionally less valuable. Similar situations can be observed when increased income makes it possible to

* Inadequate nourishment of poor mothers, unlike cows, does not reduce milk output. This leads to the unusual circumstance that the typical Indian mother, for example of rural Andhra Pradesh, produces as much milk a day as the average milch cow of the same area.⁹

"buy up" from unrefined sugar (jaggery) to the less beneficial refined sugar. A recent survey in Western India confirms that a statistically significant drop in protein intake is possible as incomes rise and cereal diets are "upgraded".¹⁰

Reports from other parts of the world also note that the level of aesthetic pleasure and the level of social prestige are more important in changing food habits than the level of vitamin A or the level of methionine. White corn replaces the more nutritious yellow.¹¹ White bread replaces tortillas.¹² Coffee is taken instead of the *atole*.¹³ Tea instead of butter-milk.¹⁴ The Joint Secretary in the Ministry of Food, Government of India mentioned recently how the common Indian field-worker no longer took his curd and chapatti into the field; now it's tea and biscuits.¹⁵ One study noted that meat and fruit are being "pushed out of the diet" and at the same time there is an increase in the consumption of manufactured foods — especially sugar containing foods.¹⁶ The deleterious effect in urban slums of the Coca-Cola tragedy is legend.

Often with increased income, certain items are discarded from the diet since they are identified as "foods of the poor". Quinoa, for example, is an excellent cereal of the Bolivian altiplano. But it is associated with low social status, and Bolivians invariably choose a more costly but less nutritious substitute whenever they can afford it.¹⁷ In much of India, greens and papaya are regarded with disdain because they are plentiful and inexpensive.¹⁸ In Madras, *pute*, a form of steamed pudding with coconut, is never served in Brahmin restaurants because it is associated with lower class diets.¹⁹ In East Pakistan, a gentleman does not eat red rice and rich people do not eat pulse (legume) leaves.²⁰ In some countries dark bread is still regarded as a poor man's food.²¹ Also worth noting is that low-ranked, meat-consuming Indian castes, as they begin to rise in income, sometimes imitate the vegetarian orthodox way of life of higher castes.^{22 23}

BASIS OF INCREASED INCOME

Another question we must ask ourselves is "What was the basis of the increased income?" In many instances, it is a reflection of the flow from farms and small towns to the large cities. These migrants have more money than the rural poor, but they also need more for rent, clothing and other necessities of city life, including food which costs

more in the big city.²⁴ Also, the foods are selected on the basis of relative cost, imitation, prestige, convenience, and availability — all precarious guides of nutritional validity. Often the resulting diets are not of the same quality once known. It was found that Congolese who abandoned village life for Brazzaville made more money and spent more for their traditional cassava flour. But it was also found they developed pellagra, because they could not buy the familiar niacin-rich cassava leaves in town. For the same kind of reason, beri-beri was found in former rice-eating Senegalese villagers who migrated to Dakar.²⁴

Another common basis for increased income in developing countries is the shift from a subsistence crop to a cash crop. A peasant may earn more by growing cotton, tobacco, cocoa or copra, or working for a man who does. But will the peasant eat as well as he did when he grew his own dinner? In parts of Central America, incomes rise as exports increase, but this does not seem to be helping protein levels. In fact, the per capita consumption of meat declines. More meat is raised there than ever before. It seems, however, to be ending up not in Latin American stomachs — but in MacDonald hamburgers in the United States.²⁵

In a rural setting, increased incomes usually result from the reorientation of traditional agricultural production practices. However, attractive price incentives for wheat, essential to the agricultural revolution and many increased incomes in India, were partly responsible over the last three non-drought years for the declining acreage used to grow high protein pulses. As wheat production has gone up, the production and consumption of pulses — a major protein source in the Indian diet — has gone down.²⁶ This is not to deny the

* Although most elasticity tables make an urban/rural distinction, there are rarely gradations. Urban may include everything from an agricultural dominated small town of a few thousand to a metropolis of many million.

† This in part is the result of the research concentration in recent years on increasing production of cereals. By comparison, pulses have received almost no attention. The result of the increased cereal yield is a change of cereal/pulse profit relationships that is soon accompanied by a change in acreage relationships. Another factor is that in the past, some of the pulses were intersown with wheat. With the new wheat varieties this is no longer feasible.

significant nutritional benefits from increased cereal production. Nonetheless a 27 per cent decline in per capita pulse consumption should be cause for policy concern.²⁷

The above arguments suggest that at times the income/diet relationship is beside the point, as it is when incomes cannot be increased enough during a man's lifetime to meet even minimum nutritional requirements. There is no question that diet changes with increased income, and the higher the income the more noticeable the new foods. But this does not necessarily mean a noticeably improved diet. At certain levels of society the traditional income/nutrition assertions are incontrovertible. Diets then unquestionably improve as incomes rise. For the very low income groups — and these are the people we are most concerned with — this may not always be the case. Even when it is, the process may be so slow as to constitute an invalid and unacceptable solution.

The moral of all this is that increased income cannot be regarded — as it frequently has been — as a cure-all for malnutrition. We need to know more than we do of the complex realities of habits among the very poor before asserting categorical income/nutrition relationships.

II

If increased income alone is not the answer — at least for the foreseeable future — then, what is? This is not a simple question, as some would like us to believe. We have all had our turns listening to how soy is the answer or fish protein concentrate is the answer or blended cereal-type product is the answer or lysine, single-cell protein, opaque-2 corn, mothercraft-centres, child feeding programmes, or nutrition education is the answer. A set solution is easy to sell. It is specific. Its costs can be detailed. Its effects are measurable. However, given the managerial sophistication of our society — and given the limitation of resources — can we not do better? It is suggested here that we do not yet have the answer; basically because too many of us have been looking through the wrong end of the telescope. We should not be starting by examining specific foods or specific fortification schemes. We should be ex-

* Pulse production from 1965-69 is down 17 per cent. Because of the 13 million a year population growth during the same period, there is a 27 per cent decline in per capita pulse consumption. Incomplete data suggest a possible similar situation in West Pakistan. Acreage for chick peas has declined 21 per cent in the last three years.²⁷

amining what it is that affects the child's nutritional well-being. We should see what he eats, why he eats it, and how it gets to him. What are the feasible points of intervention into that delivery system — points that are susceptible to modification? What are the incentives and disincentives that are at play?

A slight twist of the market mechanism may mean more to the nutrition of a child than all the new foods we could ever devise and produce. A shift in production incentives, retail price policies, or ration shop procedures could well be a major part of the answer.

This, I realise, sounds simple and obvious, but it has not been. It took nearly four years in a field setting before my own thoughts could be sufficiently sorted out to realise the lacunae in our approach. A project finally has been devised that will study the nutrition delivery system of an entire State in India; the objective being to develop a soundly based strategy for action programmes.

III

What do you do while such a study is underway? A useful analysis is necessarily complex and time-consuming. Yet, the nutritional need calls for immediate action. In India, an attempt was made to generate interest and develop programmes without clear answers.²⁸ Based on the limited information that was available, this involves judgments of need and of opportunity. It also involves a battery of practical considerations that seemingly have nothing directly to do with nutrition, but they are often the critical bases of decisions. For example, is the proposed action politically attractive? And if so, is it sufficiently visible? How long will it take to see results? What are all the political implications; e.g., how will various commodity interest groups react? Is the cost within the locally accepted realm of practicality? Is the proposed action inflationary? Will there be a requirement for foreign exchange? Is the project — or will it be — self-sustaining? Is it replicable; and, if so, what are prospects of imitation? Does the project involve other countries, systems or institutions which could bring embarrassment to the Government? Are all raw materials, equipment, and other necessary related components available? And are all the necessary related services in place: transport, packaging, storage, marketing/distribution capacity? What are the long-range effects? Does the project better equip the poor to cope with development opportunities? What is the relationship to other

programmes? Is there a linkage between this and the family planning activity? Does this provide additional employment? Is there an educational dimension to the programme?

And then there is a series of practical bureaucratic questions. How able are the people in charge? Do they have the commitment and the muscle (without which approval and allocation mean little) to push the project through? How many officials are involved in the clearance procedure, and how long will that procedure take? What are the administrative constraints, once the project has been approved? What other problems can be anticipated: e.g., what is the potential corruption factor?

Much has been said, for example, about Modern Bread — the bread fortified with half a dozen nutrients — in India. This project was not the result of a systems approach, but one of the reasons it has been successful is that it took into account a number of the above considerations. It was selected as the first fortification venture in India — in part, because it was easy, quick, inexpensive, visible, and required the involvement of relatively few people. In looking at alternatives, there were more important ways to improve Indian nutrition. One obvious approach would be to grow more pulses. But this implies changes in land-use, and as such, risks controversy. In looking into the pulse possibility, it was soon learned that many officials would be involved — formally and informally — in the decision-making process. Also, it became evident that relevant, reasonable but non-nutrition oriented considerations would weigh heavily on their attitudes. In the case of Modern Bread, a new policy meant concurrence of the Chairman (who was also the Secretary of Food) and the Managing Director, and those attempting to stimulate nutrition in India opted for reality. There was no illusion that fortification of bread would solve India's nutrition problems — but one begins with the do-able. There was also the longer view that the project could, if effective, contribute to something more significant. In short, there is an important psychological dimension to development, and there is nothing more effective in creating momentum than a successful start.

Modern Bread, combined with other activities, did just that. It helped to dramatise the fortification principle and led to the Government's formal adoption of a general policy of fortification. This in turn led to the fortification of atta, a more traditional wheat mesh used to make Indian chappattis. It also led to new searches for low cost, centrally

processed foods which already reached all elements of the population. This meant some new thinking and interesting work in salt fortification and tea fortification*

IV

In summary, we have seen, first that the relationship between the growth of per capita income and the elimination of malnutrition rests upon all of the following assumptions:

An increase in average per capita income of a country leads to an increase in the per capita income of the poor.

An increase in the per capita income of the poor leads to an increase in the amount they spend on food.

An increase in the amount spent on food by the poor leads to an improvement in nutrition.

An improvement in nutrition by a poor family means an improvement in nutrition for the pre-school aged members of the family.

This paper suggests each of these assumptions is open to question. Moreover, even if the assumptions were valid, increasing per capita income may not provide the necessary nutritional improvement within the lifespan of the needy. Nor would dependence on income growth necessarily be the most effective way.

Second, to determine the most effective means of eliminating malnutrition, we must look differently — and more systematically — at the factors affecting nutritional well-being, especially of children. What is the delivery system and how can adjustments be made with

that system to get positive results?

Third, we must recognise that the kind of analysis proposed here is not accomplished overnight. Must we then wait until we have all the answers, and take a chance on losing whatever interest has been stimulated? Or do we move ahead without the answers, as was attempted in India? We may not get the theoretical maximum impact for the invested dollar — but we get something. If we move ahead, do we (as seems fashionable to suggest) try everything, because the need is so great? Obviously not. There are not the resources, especially managerial resources, for such an approach. One can be selective even without final answers — basing his selectivity on current judgments of realistic opportunity and reasonable payoff.

Finally, in our new interest in sophisticated model building, we must not lose sight of how, in real life, decisions are often made. Policy-makers in all countries are mortals, subject to the same emotional interests, anxieties and reactions as others. Programmes are ultimately the result, not of econometric analysis, but of political appeals, of basic human concerns and of personal intuition. What influences that intuition?

In short, what is being suggested here is a conceptual re-examination intended to bring about an approach both more systematic and more in tune with the complex realities of contemporary decision-making.

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Agricultural Co-operatives in Japan

G C Mandal

Agricultural co-operatives in Japan have, by virtue of their organisational strength, earned for the farming community bargaining power effective enough to ensure favourable prices for farm products. The co-operatives also have large savings which are used for financing manufacturing industry.

Much of the success of agricultural co-operatives in Japan is due to strong Government support, manifest in the use of the co-operatives as a device for implementing the National Agricultural Policy, the economic benefits accruing from co-operative services and the overall efficiency resulting from rationalisation.

The lesson to be drawn from the success of co-operatives in Japan is that co-operatives can be exploited to provide an outlet for the urge for capital formation and development if this urge has already been created in the farm economy by appropriate programmes of education, training, research and extension, supported by suitable institutional reforms.

[This paper is the result of a seven-day trip to Japan in April last year. Ruyichi Okada supplied the author with information verbal, mimeographed, and printed, and helped to conduct a field-trip which formed the basis of this article. Shigeo Tajima and Ryoji Ito also extended considerable help. While the author is personally responsible for any errors or imperfection in the study, he gratefully acknowledges the help and guidance of all three persons.]

I

Japanese Farm Economy

JAPAN has been conceived by W W Rostow to be an economy in which 'a relatively narrow array of natural resources was harnessed by a diligent, strongly-motivated population to the best that modern technology could offer in a 60-year surge from say 1880 to 1940' ("The Stages of Economic Growth", Cambridge, 1967).

The contribution by agricultural development to the take-off of the Japanese economy is substantial. It was in the form of increased supply of food, fibres, and foreign exchange for industrialisation, and in the form of increased demand for the industrial products. The quality of Japanese leadership is also reflected in the co-operative movement of the country in its agricultural sector.

The farm economy of Japan is characterised by small family farms, with an average size of one hectare, using mostly family labour. Thus intensive cultivation became its keynote and on this all the technological improvements were concentrated.

In the period following World War II, extensive land reforms were carried out to replace the old landlord system by the system of owner farmers. Also, the system of payment in product of farm rent which was exorbitant was replaced by cash rent system and the amount of rent was substantially reduced. Ownership of lands by actual operators facilitated formation of co-operatives and stimulated agricultural development to a great extent.

People depending on agriculture during 1878-1882 constituted 75 per cent of the total population. The proportion

of farming population declined to 49 per cent by 1950, and further fell to 33 per cent by 1960. This was due to growth of industries which siphoned off part of the labour force from agriculture to industry.

During 1878-1882, primary production, secondary production and tertiary production accounted for 65 per cent, 10 per cent and 25 per cent, respectively, of the national income. By 1960, these figures were changed to 21 per cent, 30 per cent and 49 per cent, respectively. The growth of income from the secondary and tertiary sectors, at the cost of the primary sector, was remarkable. In absolute terms, the income of the primary sector increased from 909 million yen in 1878-1882 to 3,864 million yen in 1960 at constant prices (360 yens=1US\$), the income from secondary sector rose from 147 million yen to 5,557 million yen, and the income from the tertiary sector rose from 351 million yen to 9,104 million yen, during the same period.

During 1933-35, rice constituted about 51 per cent and livestock products 7 per cent of the total farm products, the rest being wheat, barley, other cereals, beans, potatoes, vegetables, fruits, horticultural products and cocoon. During 1956-58, the proportion of rice declined to 50 per cent, and the proportion of livestock products increased to 12 per cent. During 1960-1965, while field crops declined by 2.2 per cent, livestock products increased by 86 per cent.

Household incomes and expenditures of the Japanese farmers are presented in the Table.

A peculiar feature of the Japanese farm economy is that earnings from non-agricultural sources form a sub-

stantial part of the farm household income. The non-agricultural portion of the farm household income rose from 45 per cent in 1960 to 52 per cent in 1965, indicating expansion of the opportunity to combine farm work with non-farm work in the wake of growing industrialisation.

II

Development of Agricultural Co-operative

Early co-operatives in Japan took the form of common reserves of cereals which were available during emergencies. These were, however, very different from the later co-operatives which came into existence during 1830-1840 under the name *Hotokusha* and which promoted funds for mutual relief facilities, roads, and new lands for farming.

Modern co-operatives started to develop around 1900, under official policy encouraging promotion of co-operatives to serve as agencies of technological improvements to increase agricultural production. The modern age in the co-operative movement was heralded by the passing of the 'Co-operative Society Law', in 1900, which made provision for credit, marketing, purchasing, processing and utilisation. It did not, however, provide for the formation of federal co-operatives. In 1905, the Japan Central Co-operative Union came into existence. Its functions were to promote co-operatives, guide and supervise their activities, and conduct research and information services in the field of co-operation.

In 1909 the co-operative law was revised to make room for federal organisations. This led to the establishment of the Central Union of Co-operative So-

cieties which replaced the Japan Central Co-operative Union — an informal body.

The development of co-operatives was further stimulated by World War I, when the 'Agricultural Warehouse Law' was enacted making government subsidy available for financing 40 per cent of the construction cost of warehouses.

In 1921, the Co-operative Law was revised to provide for the establishment of national federations and in 1923 the law for the establishment of the Central Co-operative Bank for co-operative societies was created. It was with a view to counteracting the adverse effects of the Depression of the late 1920s and early 1930s that the National Marketing and Purchasing Federation of Rice was founded in 1931. The Central Co-operative Bank and the National Marketing Organisation for Rice played a considerable part in bringing relief to the economic crisis.

A Five-Year Plan for expansion of co-operatives was drawn up at the National Co-operative Convention in 1931. The main objective of the plan was to promote the network of co-operatives, bringing every village and town within its fold, and to increase utilisation of co-operative facilities.

The co-operative movement had, however, to face the opposition of capitalistic private interests which tried to exercise influence upon the government for the withdrawal of its support to the co-operatives. The co-operatives, however, were able to overcome the resistance and they achieved rapid expansion according to the Five-Year Plan. The trend was further stimulated by World War II. In 1943, a new agricultural organisation law was passed favouring promotion of various types of agricultural associations, to make arrangement for finance, increased production, marketing, and distribution of farm requisites among the farmers.

III

Present Structure of Co-operative System

The Japanese Agricultural Co-operative System, as it stands today, consists

of the following components:

- (1) Unit co-operatives at the base (village or town level),
- (2) Co-operative unions in the prefectures,
- (3) National federations,
- (4) Other related organisations, e.g. farmers' small associations, women's organisations of agricultural co-operatives, young men's organisations of agricultural co-operatives, etc.

Unit co-operatives at the base can be divided into two categories, viz. (a) general unit co-operatives and, (b) special unit co-operatives.

Every place in the rural area of Japan has a general unit co-operative of its own. It is essentially a multipurpose organisation, combining various functions like credit, marketing, purchasing, mutual aid, and improvement of living conditions of the farming community. The average membership of a co-operative is 555. It draws capital from share-contributions of its members. The value of a share is US \$ 8.33. The average value of share capital contributed by a member is about US \$ 22.22. Loans of the unit co-operatives from upper federations and those available to the individual members are proportional to the value of shares subscribed.

Special unit co-operatives are those which are organised at the village level for dealing in special business like vegetable farming, stock raising, cocoon produce, etc. These units are formed among the farmers who are specially concerned with these activities.

Unit co-operatives have formed federations in their local areas. The local federations and unit co-operatives have been organised into national federations. Territorial jurisdiction of many of the federations is even smaller than the prefecture.

There are 46 prefectural co-operative unions whose functions are not economic, but supervisory and educational. They include inspection, guidance, and survey of the agricultural co-operatives as well as liaison work between the co-operatives and other concerns.

By 1960, 21 national federations of

the co-operatives were established, in addition to which the Central Co-operative Bank for Agriculture and Forestry and IE-NO-HIKARI Association — which were also essentially federal organisations — came into existence. The membership of the national federations is composed of prefectural bodies. The national federations include National Purchasing Federation of Agricultural Co-operative Associations, the National Marketing Federation of Agricultural Co-operative Associations, and the Mutual Insurance Federation of Agricultural Co-operatives.

Also, there is the Central Union of Agricultural Co-operatives whose administration represents agricultural co-operatives of all levels. Its function is to promote agricultural co-operatives, to guide, inspect and educate them and to undertake research activities for their further improvement.

IV

Functions of Co-operatives

While the Japanese agricultural co-operative system has developed activities in various fields, e.g. credit, marketing, purchasing, insurance and welfare, special mention may be made here of credit, marketing and insurance.

(a) *Credit*: An essential characteristic of the Japanese agricultural co-operative system is the network of multipurpose type co-operatives widely spread over the rural area, and based on the conception that the needs of the farmers are interconnected and can be best satisfied when served together by a single organisation. This is why the unit agricultural co-operatives combine credit with marketing, purchasing, service, mutual insurance and guidance. In fact, the Japanese agricultural co-operatives, in their early phase, were centered on credit. It was later found that success or further development of credit business could depend only on promotion of tangible benefit for farmers through increased production and better marketing of the farm products and this realisation paved the way to the growth of multipurpose societies at the village level.

Internal funds of the co-operative system are very large. Deposits are a predominant part of these funds. Prefectural credit federations and the Central Co-operative Bank encourage deposits with unit co-operatives by creating a special reserve fund for protection of the deposits if necessity arises.

External finance is mostly drawn from the Agriculture and Forestry and Fisheries Finance Corporation — a governmental financial institution. For the loans made to unit co-operatives the in-

terest ranges from 3.5 to 7.5 per cent per annum, and the term of redemption ranges from 8 to 30 years.

(b) *Marketing*: The agricultural co-operative marketing system in Japan was developed with the purpose of minimising the possibility of intermediary profiteering, by marketing the farm products through the co-operative channel comprising multipurpose co-operatives, prefectural economic federations, and the National Marketing Federation as the apex body.

Percentage of sales through the co-operatives varies from 27 in the case of Chinese cabbage to 93 in the case of rice. The high percentage for rice is explained by the government policy of making maximum use of the co-operatives as agencies for buying rice the supply of which in the market is under absolute control of Government. The co-operatives also have extensive command over the supply of barley, silk cocoon, white potato, peaches, rapeseed, and grapes — 80 per cent, 71 per cent, 66 per cent, 65 per cent, 63 per cent and 61 per cent, respectively, of the sales of these commodities being accomplished by the co-operatives.

Marketing through the co-operative channel is conducted according to a programme drawn up in advance. Proceeds of sale are made available to the farmers through the banking system a few days after the actual sale. The basis of this transaction is known as 'unconditional consignment'.

The National Marketing Federation plays a very important role in the marketing of rice, cereals, potatoes, fruit, vegetables, livestock products, and processed products, both within and outside the country. Its main contribution consists in securing adjustment between demand and supply of various farm products.

(c) *Co-operative Insurance*: Insurance is one of the most important services offered by the co-operative system of Japan. The functions of the unit multipurpose agricultural co-operatives include mutual insurance. The area of operation of a unit co-operative being very small, it would be extremely risky for it to undertake insurance without support of the higher bodies. Higher bodies, like prefectural insurance federations, are involved in the business insofar as they undertake reinsurance on the basis of insurance premiums handed over to them by the primary societies after deduction of their own commissions and inclusion of reinsurance premium. Prefectural Federations are bound by contracts to pay reinsurance money for matured insurance. Reinsurance for insurance connected

with death, fire, and accidents, is undertaken by the National Mutual Insurance Federation.

Co-operative insurance in Japan comprises nine types of activities as given below:

Long-term insurance: (1) Endowment Life Insurance (2) Children Insurance (3) Building Endowment Insurance; Short-term Insurance: (1) Fire Insurance (2) Co-operative Building Fire Insurance (3) Automobile Insurance (4) Vehicle Liability Insurance (5) Transportation Insurance (6) Term Life Insurance.

Co-operative insurance is growing fast in Japan, and is supposed to be one of the biggest insurance enterprises in the country. The total number of policy holders of long-term insurance reached 10,687,000 by the end of the fiscal year 1965, and the total value of policies was 3,651 billion yen by the same year. Almost every household in Japan is within the fold of mutual insurance service of some type or other. The reserve at the disposal of the co-operative insurance organisation is now a huge sum, available for the development of agriculture and improvement of the living condition of the farmers.

V

A Case Study

This section presents data relating to the working of a particular agricultural co-operative in Japan by way of an illustrative case study. The data were presented to the writer by the manager of the co-operative when he was visiting it in April 1969.

The co-operative is located in Hatona City some 60 miles away from Tokyo on the highway from Tokyo to Osaka. It is named after the place, as Hatona City Agricultural Co-operative. The area of the city is 10,000 hectares. At the time of the present investigation, the co-operative had already enrolled 4,100 farmer members having 2,500 hectares of cultivated land.

The functions of the co-operative were stated as: (1) Making loans (2) collecting deposits (savings) from members (3) Marketing products of the members (4) Selling fertilisers and household requisites to the farmers (5) Buying farm machinery from manufacturers.

In addition, the co-operative was engaging a helicopter to spread insecticides over the fields of the members who were planting 1,500 hectares to barley, 750 hectares to peanut, 350 hectares to rice, 200 hectares to orange and 10 hectares to flower, and were maintaining 3,000 cows and 100,000 chicken.

As regards the marketing activity of the co-operative it may be noted that this body does not buy the products of the members or undertake actual selling or the handling of the products but acts as commission agent getting only commission for sale to the desired party.

During 1968-69 deposits of the members with the co-operative amounted to \$13 million. Loans made to the members amounted to \$2 million. Interest obtained by the co-operative on loans was 9 per cent; interest earned by members on their savings was 5.6 per cent.

Investments during 1968-69 amounted to \$300,000. The gross income worked out to \$600,000. Net profit was estimated at \$130,000.

Figures cited above indicate the vitality and growth potentiality of a typical farmers' co-operative in Japan.

VI

Conclusion

By virtue of their organisational strength, the Japanese co-operatives have earned for the farming community in Japan bargaining power effective enough to ensure favourable prices for farm products. The source of their influence and strength is enterprise, efficiency and dedication. The co-operatives have big savings which are being used for financing industrial manufactures.

Much of the success of the Japanese agricultural co-operatives is due to strong Government support, manifest in the acceptance of the co-operatives as a device for implementing the National Agricultural Policy, the economic benefits accruing from the co-operative services and the overall efficiency resulting from rationalisation which, in its turn, is inherent in the high degree of integration, network and national involvement in the co-operative system of Japan.

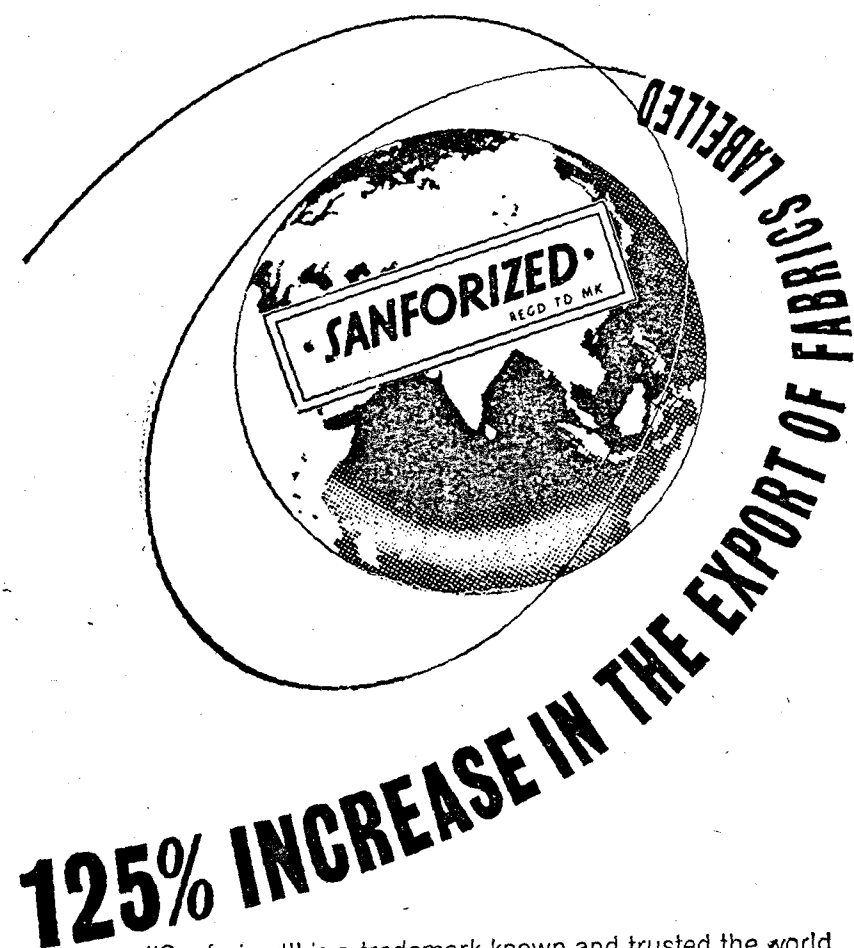
It is also possible that, the agricultural co-operative movement in Japan has been to a great extent influenced by the capital and service requirements of a high rate of technological improvement on the small farms.

Since co-operatives are much more successful in a developed economy like Japan than in a developing economy, a lesson for the latter can be derived from the Japanese case of agricultural co-operation: This is that, co-operatives can be exploited to provide an outlet for the urge of capital formation and development if this urge has already been created in the farm economy by an appropriate programme of education, training, research and extension in rural areas, supported by suitable institutional reforms.

TABLE: NET ANNUAL INCOME AND EXPENDITURES PER FARM HOUSEHOLD (in US dollars)*

	1960	1961	1962	1963	1964	1965
Agricultural income (net)	625	656	749	802	885	1014
Non-agricultural income (net)	512	618	710	822	966	1098
Total spendable income	1137	1274	1459	1624	1851	2112
Percentage of non-agricultural income to total spendable income	45	49	48	51	52	52
Living expenditure	1023	1154	1277	1432	1620	1818
Surplus	114	120	182	192	231	294
Percentage of surplus to total income	11	10	14	13	12	16

* Converted from yen into US dollars at the rate of \$1 = ¥ 360.



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Ideology of Consensus

Iqbal Narain

"In politics, not in economics, is found the creative dialectic of opposites: for politics is a bold prudence, a diverse unity, an armed conciliation, a natural artifice, a creative compromise and a serious game on which free civilisation depends; it is a reforming conservator, a sceptical believer and a pluralistic moralist; it has a lively sobriety, a complex simplicity, an untidy elegance, a rough civility and an everlasting immediacy; it is conflict become discussion; and it sets us a humane task on a human scale. And there is no end to the dangers that it faces: there are so many reasons that sound so plausible for rejecting the responsibility and uncertainty of freedom".

It was Bernard Crick¹ who thus offered a conscious but normative defence of pure politics in the Aristotelian sense; Rajni Kothari does the same with a difference in his "Politics in India".² His balanced, conceptually oriented and empirically formulated appraisal of the democratic political system in India also emerges, incidentally of course, as a scientific defence of democratic politics in the specific context of developing countries. Rajni's "Politics in India" is convincing as an optimistic critique of political development in India and reassuring as a symbol of hope about the future of Indian political science, but its abiding value seems to lie as an essay in empirical democratic theory. The critical role of the democratic polity in social transformation and political development is both the key-note and the recurring theme of the book which has been succinctly summed up by the author in his opening observation, "If 'modernisation' is the central tendency of our times, it is 'politicisation' that provides its driving force. It is a force, moreover, that many have not yet learned to master, in part because he is still a prisoner of outdated perceptions" (p 1). It is for this reason, again, that politics is treated as "the great creative force . . . not just a representative mechanism which responds to outside pressures and aggregates outside interests" (p 6).

The author has sought to vindicate empirically his theoretical postulate about the creative role of the democratic polity through his study of the theory and practice of the Indian model of political development and in the process the potentialities of democratic

politics in India have also been vindicated. Of course, the author is too keen a political analyst to ignore the pitfalls and the dilemmas that the democratic experiment in India faces particularly in the post-1967 period. He, however, does not feel the need to exaggerate the problem and emphasises:

"What is needed is speedily to fill the growing gaps between potentiality and actual performance, to anticipate problems and devise congruent policies, and to press the advantages of political autonomy and cultural tranquillity before the latter begin to give in to mounting pressures from the constituent elements in the system" (p 434).

I

Conceptual Perspectives

It naturally follows that the book is as important for conceptual perspectives as for the meaningful probe into the dynamics of India's political development. In terms of conceptual perspectives it is both a critique and an exposition — more the former than the latter.

First, Rajni is treading familiar ground when he reiterates that political development is a long-term process which is not necessarily unilinear and cumulative and which is not substantially affected by exogenous factors.³ He, however, adds a new emphasis when he points out that "new values and aspirations, on the other hand, once started is a fast and cumulative process, and is greatly influenced by exogenous factors" (p 2).

Secondly, he advocates a syncretic approach for a meaningful insight into the mystique of political development in developing countries like India when he identifies his approach as "broadly behavioural" . . . but adds that "we need also to restore two of its more neglected dimensions: institutional analysis and the role of elites" (p 6). It is here that he makes a major departure in the prevailing input-output conceptual construct, when he does not accept the position that political institutions are "some kind of a superstructure that presides over more basic relationships in society and economy" (p 6) or that elites are "simple recipients of inputs from society to which

they respond in the form of various governmental outputs" (p 6). In Rajni's model which he exemplifies in the specific context of India:

"The whole process starts here through the establishment of a constitutional and political superstructure which then, through the actions of elites, penetrates into society at various levels and, by stages, leads to responses from below in the form of new coalitional structures. Elites and institutional forms can be seen here as creative actors in the process of integration and diversification, initiators of a far-reaching change in all spheres of life, and catalysts and mobilisers of a new vitality at various levels" (p 6).

Elsewhere he uses the word cyclical in regard to the operation of the model and also limits this inverted use of the input-output model to the earlier phases of political development (p 97). Both these are germane to the plausibility of Rajni's theoretical position. One may also add that, except for the very initial stages of development, the elite and masses simultaneously act as inputs into the system and more the masses get politicised and articulate, the more they tend to become an input into the system. Time and levels of development thus play a critical role in determining the extent of the so-called inversion that Rajni has talked about.

Thirdly, Rajni has perceptively drawn upon the Indian experience when he points out that, empirically speaking, modernisation is not necessarily an integrative process; in fact in the short run it may turn out to be more disintegrative than integrative or at any rate both (pp 64-5). This should not be taken to mean that modernisation is anti-nation building because modernisation, more often than not, boosts up bargaining and not balkanisation. One may recall in parentheses here Rajni's own contention that dissent "is directed not so much toward upsetting the old order as to finding an entry into it" (p 163). Similarly, modernisation need not necessarily encourage urbanisation. Modernisation is thus both a situation and culture bound concept.

Fourthly, Rajni is perhaps at best identifying a difference of degree rather than of kind, if not only elaborating the details of the operational process of

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party behaviour, when he refuses to accept the interest group approach to party politics which treats parties "as simply part of the representational structure of parliamentary government, contesting votes and seats, articulating and aggregating prevailing divisions in society, as part of the input processes of modern politics" (p 159). Rajni's own position is:

"The real contribution of the party system to political development lies in its role of being a catalyst of governmental performance at various levels; parties do not simply compete and represent but also turn competitive arenas and representational processes into resources for, and against government" (p 159).

One can argue that unless parties contest and win elections, the governmental mechanism will not become responsive to their pressure. Again, aggregation of interest will have little meaning if it is not reflected in the performance of the government. Thus the position of the interest group theorist and that of Rajni appears to converge on the issue of parties influencing governmental performance to promote the interests that they tend to aggregate and represent.

Finally, Rajni has correctly highlighted that political development as a concept has an important external dimension in the international environment and consequently the processes of development are not autonomous and self-generative. This aspect has so far not attracted the attention that it deserves. Rajni Kothari fills an important conceptual gap by drawing our attention to "a basic developmental theme: reconciliation between political independence and aspiration to acquire a position of influence and leadership on the one hand and a state of economic dependence arising from a weak industrial base at home on the other" (p 385).

II

Indian Model of Political Development

The central theme of Rajni's thesis is that India's model of political development is both distinct and unique. He displays a sense of modest pride when he points out that politics in India "is neither suppressed nor confined to a small aristocracy. On the contrary politics provides the larger setting within which decision making in regard to economic development and social change takes place" (p 9). Thus, again in the words of Rajni, "the Indian model of development is characterised by politicisation of a fragmented social structure through a penetration of political forms, values, and ideologies" (p 11).

If democratic politics provides the framework, the elite, as stated elsewhere also, act as the catalytic agent at least in the initial stages of the country's political development. This should not be taken to mean that Rajni is taking an elitist view of Indian democracy; he only seems to argue against the withdrawal of the elite. The interaction between an apolitical society and an open polity on the one hand and between tradition and modernity on the other are other significant dimensions of the Indian case. In fact, the uniqueness of India's modernisation lies "as a response to the challenge of systematic change against the canvas of a continuing civilisation" (p 85). Thus, "the Indian approach to development may be characterised as one in which the exposure to modernity led to a renewed awareness and quickening of traditional identity, its reinterpretation and rejuvenation, and its consolidation in the framework of new institutions and ideas" (p 85). The process was facilitated by colonial modernist impacts, the influence of the nationalist movement, the impact of a modernist centralising elite, charisma of leaders and the role of the Indian National Congress. It thus becomes clear that political development in India does not necessarily postulate a complete break with the past. In fact, the processes of democratic politics, social change and economic growth have the potential to import new values into old traditions, break into the dichotomy of tradition and modernity and make the two feed into and supplement each other. According to Rajni, "the shift in the leadership pattern from the Westernised modernists to the traditionalist modernisers best exemplifies the process of interaction between tradition and modernity" (p 281). However, the danger of reactionary and revivalist forces exploiting the morbid elements in the Indian tradition and thus shaking the liberal, secular and democratic consensus enshrined in the constitution still remains, even when the tradition-modernity interaction model is accepted as an ideological construct because modernisation of tradition, as Rajni also concedes, is naturally a slow and long drawn out process. Rajni does not address himself to the issue and, more particularly, to the ways and means of safeguarding against the danger.

III

Historical Tradition and Political Culture

One may not accept history as an exclusive determinant of the present

and the future, yet it cannot be denied that without the historical perspective the present day political reality cannot be meaningfully interpreted. It is, therefore, not surprising if Rajni deals at length with historical antecedents. The survey made here is far more comprehensive and analytical from a conceptual standpoint than similar attempts made earlier.⁴ It is all the more significant because it has been linked to India's political culture of which Rajni correctly takes a dynamic and not a static view. In fact, no political analyst has attempted in such depth the analysis of India's political culture as it has been attempted here.

The historical survey highlights how the apolitical society of ancient India continued during the Muslim and, to a lesser extent, during the British periods so that the challenging task of building up a political centre was left to the post-Independence ruling elite in India. From the point of view of the country's political culture, it is important to recall a psychic legacy of ancient India:

"There is among the Hindus a marked tolerance of deprivation, a low sensitivity to humiliation, and cynicism with regard to the use and abuse of power. The combination of a 'small group orientation' mentioned above and the metaphysical emphasis on personal salvation makes for a peculiar kind of individualism, non-aggressive and non-collectivist in orientation" (p 28).

It is also interesting to note how during the Muslim period "caste . . . became a protective shell, a mechanism of isolation and withdrawal from an unkind environment . . . In the process Hindu society lost its vitality and dynamism, hardened a great deal in its internal structure, and turned fatalistic and pessimistic in its approach to the larger world" (p 34) though Rajni correctly points out that one of the "indirect result of the Muslim impact was a reaction to it after its decline" (p 35). He has very little to say on the rather sensitive issue whether under the aegis of the Muslim rule there was also unleashed a tendency towards synthesis of the two cultures and the consequent evolution of a national culture. One looks in vain for his reactions to the major experiment that Akbar launched in this respect. One may also add that even if the British were not both politically and socially conservative, as Rajni finds them, it remains an open question whether they would have really succeeded in bringing about social change in a traditional social order like that of India. The most exciting part of the analysis of the historical antecedents,

however, is Rajni's appraisal of Gandhi where he finds him building bridges all over the place. He perhaps offers the most balanced political evaluation of Gandhi's role in modern India. If Gandhi on the one hand "imparted a powerful symbolism and great depth and diffusion to the nationalist movement" (p 52), he also persisted in "a style and an idiom that was wholly at odds with the reality of democratic politics" (p 57). One is, however, at a loss to understand in what sense Rajni finds the impact of Gandhi on civil rights leaders in the USA as superfluous. One could perhaps add that Gandhi embodied in his personality a synthesis of the political cross-currents that possessed the national movement before he came on the political scene. Finally, in contrast to Rajni's appraisal of Gandhi, his political evaluation of Nehru's contribution to the nation building process is rather dispersed and diffused and as such does not make the same mental dent as his critique of Gandhi does.

When one studies Rajni's analysis of India's political culture and socialisation against the historical perspective set by him one can easily appreciate his opening formulation that "the essential identity of India has not been political but cultural" (p 251). He also identifies "the early dissociation between the spiritual and the secular components of Indian civilisation" and adds:

"It was because of the continuity of India's cultural identity that far-reaching changes in the secular sphere were easy to effect from time to time" (p 252).

His most challenging observation, however, is:

"Indeed the democratic ideology fitted very nicely Indians' predilection for the autonomy of social and primordial institutions, the legitimacy of intermediate structures between state and society, the freedom to retain local identities, and the tolerance of cultural and religious diversities" (p 253).

This is in bold contrast to Ambedkar's observation that democracy was just a window-dressing on Indian soil.

According to Rajni, the themes of political culture are: (a) tolerance of ambiguity; (b) fragmented notion of authority; (c) the living interaction between ideology and politics; and, (d) the split Indian personality between trust and distrust. Building on the last ingredient, Rajni concludes:

"Here one is struck by the pervasive scepticism of the Indian mind, scepticism in regard to the possibilities of achieving something collectively, a basic suspicion of others, sus-

picion especially of authority and its intentions, and a fear of underhanded and circuitous dealings by others . . . It is found easier to work in superior-subordinate roles than as equals; there is anxiety about the stability and dependability of coalitions; and there is continuous concern as to whether the other person will fulfil his part of a contract" (p 267).

In the vein of Nirad Chaudhuri, which perhaps is very much unlike Rajni, a rather controversial observation has been made in these words:

"Hypocrisy in public life is understood and tolerated, indeed expected. It is part of the overall cynicism that Indians are known to display towards matters social and political" (p 266).

In sum, "India's political culture of change" is a mix of traditionality and modernity, as a result of which "Indians seem to be eminently suited to operating the diversified and differentiated structures that modernisation inevitably involves, and while they are also richly endowed for tolerating dissent and criticism, they are not as well equipped for developing collective commitments and the organisational discipline needed for large-scale enterprises which are also important correlates of modernisation" (p 291). Will the interplay of democratic politics and political culture impart a new value orientation to the cultural psyche of the people in India is a question about which Rajni appears to be conspicuously silent. One also wishes that the new anti-authority and pro-direct action trends in India's political culture were brought into bolder relief particularly with a view to finding out how deep was their dent in the continuity of the country's political culture.

IV

The Political System at Work

It is not enough just to build up a theoretical defence of India's model of political development on the ground that "it is not so clear any more that the authoritarian formula necessarily works, especially in cultures where the central symbols of secular authority have not penetrated into the regions and where sub-national identities have yet to be woven together into a viable federation" (p 16). More importantly, the resilience of the model is to be seen in its efficacy in terms of system building and performance. Rajni has been alive to this academic demand and, therefore, deals at length with institutional strategy, party system and coalition making, social infrastructure, poli-

tical institutionalisation and national integration, political economy of development and coping with the international environment.

As far as institutional strategy is concerned, Rajni's coverage is at once comprehensive and instructive. The varied themes covered here relate to issues of consolidation and change, centre and periphery, patterns of state politics, process of decentralisation, role of the district, significance of panchayati raj, the growth of intermediaries, bureaucracy and political development, continuities from the past, new developments, the ideological embodiment, and, finally, institutionalisation and legitimacy. He has an interesting observation to make on anti-Congressism as a variable in Union-State relations:

"... where the State Government is run by another party or coalition, its leaders are found to be much more dependent on the Central Government as the chief minister of the State is no more than a chief minister . . . The central leadership is found to enjoy greater discretion with respect to non-Congress than to Congress chief ministers who are not just chief ministers, but also part of the Congress power structure" (pp 121-2).

It, however, remains an open question how far the Congress split would change the position that Rajni has correctly identified. He also notes growth of intermediaries, drawing the various "publics and their specialised elites together", as a healthy development, the credit for which largely goes to panchayati raj. One may also broadly agree with his observation that "nowhere are the disadvantages of continuity in change so manifest as in India's administrative sphere" (p 141), though some have argued not without reason that the tradition of bureaucracy in India has helped India's political survival at least in the initial stages of the political development of the country. Again, it is open to question whether the system has always led to continuous feed back in the peculiarities of the local situation, as Rajni is inclined to think. He is, however, again offering a correct conceptual perspective when he points out:

"Any static view of institutionalisation which contraposes 'stable institutions' against 'unstable processes' fails to take account of the realities in which new nations like India find themselves" (p 150).

Rajni's discussion of party system and coalition making is in a way a summary of what he has been writing on the subject all these years in learned journals in India and abroad. He,

however, adds a significant observation when he points out that "the polarised view of the time sequence according to which Congress was everything before 1967 and is since 1967 no more than one among so many parties is a gross oversimplification of reality" (p 175). Still the basic change in the situation (which perhaps symbolises more a difference of kind than one of degree) is that, while in the pre-1967 period the Congress system could, broadly speaking, be treated as the party system of India, the party system in the post-1967 period is much more than the Congress system, though the two wings of the historic organisation still continue to play a critical role in the making of the party system in the country. After 1967 and, more particularly after the split, the Congress is tending to be more a party than a party of parties and the party system is tending to forge, in relative terms of course, an independent identity of its own. In this lies the historic importance of the fourth general election as also of the Congress split.

As far as interaction between democratic politics in India and social infrastructure is concerned, Rajni has taken a balanced view by emphasising that it is a two-way traffic. He has tried to answer the question: What form is caste taking under the impact of politics and what form is politics taking in a caste oriented society? He is, however, covering a somewhat narrow focus when he confines his study of the relationship of caste and politics to "basically a relationship for the specific purpose of organising public activity" (p 227). His identification of 'secular', 'integration' and 'consciousness' dimensions of caste go to show that caste has not been as dysfunctional in Indian politics as is usually made out. He is, however, making too neat a distinction and perhaps taking a too generalised view when he takes the position that "it is not politics that gets caste ridden; it is caste that gets politicised" (p 240). It has also to be recognised that the impact of caste on politics is not uniform; perhaps it becomes a case of diminishing returns as one moves from a lower, smaller and more compact level of politics to a higher, larger and more heterogeneous level. What is equally important to note is that it is perhaps the politics of caste in non-political spheres like education which is doing more harm than the interaction of caste and politics in the working of political institutions *per se*. Another important dimension of political analy-

sis is interaction of caste with politics not as an *exclusive variable* which Rajni has attempted, but interaction of caste with politics as a *conjunctive variable* with other infrastructural factors like region and language.⁵ The real challenge is not merely to rationalise the interaction between caste and politics which certainly has important secular overtones but to identify the basic failure of the political elite to create a secular loyalty structure which can be treated as an alternative to the infrastructural loyalty structure. Till it is done the infrastructural orientation of Indian politics would persist. One, therefore, wonders whether the essential test of India's strategy of political development lies in the criterion of traditionalisation of modernity, as Rajni has put it, or in the creation of a secular loyalty structure which cuts across the primordial network and provides the much needed secular input to the process of nation-building in India.

In his treatment of political institutionalisation and national integration, Rajni has identified two characteristics of the Indian approach — the growth and consolidation of unitary processes through the penetration of the authoritative structure of government and the dominant party, and a process of accommodation of diverse interests and plurality. Thus "political unity in India has been a function of a balanced inter-play between these two elements — dominance and accommodation — and it has gradually emerged as political sense that the one provides strength to the other" (p 297). The basic challenge, however, is "how to assure unity through growth, how to consolidate the political centre through the dispersal of both benefits and values, how to respond to parochial demands by involving them in the ongoing structures of coalition-making" (p 320). It is, therefore, to be emphasised that the institutionalisation achieved so far through the Congress system may turn out to be just transitional, if these challenges are not met. One is also not too sure whether Rajni's plea for the smaller units will prove to be functional or dysfunctional to even the transitional institutionalisation that the Indian political system has so far achieved.

As far as Rajni's analysis of political economy of development is concerned, his substantive contribution lies in emphasising that the objectives of growth and justice should be "seen less as conflicting ends — though, of course, they often work at cross purposes — than as simultaneous goals" (p 340). His an-

other interesting observation is that "the very success of the green revolution in the absence of basic structural reforms is . . . likely to accentuate inequality". He is of the opinion that "the usual threat of a class war waged by an industrial proletariat is less potent in India where the real threat comes from a disaffected lower middle class, the typical lumpen proletariat, and its coalition with an intellectual class that has been disinherited from its earlier status and power" (p 366). Another source of real threat is educated unemployed in the urban areas. In fact, according to Rajni, it is "a coalition of protest between the alienated and impoverished segments of both urban and rural sectors" (p 432) that may constitute the most powerful challenge to the efficacy of the political system. The problem in India, as correctly diagnosed by Rajni, "is that a sophisticated and adaptive institutional framework may begin to give way if it is not matched by corresponding advances in social and economic modernisation" (p 433; it is in this context that Rajni thinks that the Indian case tends to reverse the Marxian dialectics). Rajni's crisis remedy, however, seems to contradict his thesis where he argues that if socio-economic capabilities do not develop "before the pressures emanating from greater politicisation begin to accumulate, the system's ability to survive may soon become a thing of the past" (p 433).

Finally, Rajni covers well known ground in his discussion of India's efforts in coping with the international environment. One of his interesting formulations here is that "even more than the Chinese conflict of 1962, the 'war' with Pakistan resulted in a shrinkage of India's diplomatic freedom and led to a climate of disillusionment with the big powers" (p 398). Few would quarrel with Rajni's feeling that India would regain its lost initiative in world politics "only after it has acquired greater internal strength and a strong self-identity and confidence" (p 417).

V

Ideology versus Consensus

An academic venture will perhaps not be worthwhile if it only generates agreement and acceptance and no controversy. It is, therefore, no reflection on Rajni Kothari's academic performance if one identifies in the end the dilemma of *ideology versus consensus* which perhaps remains unresolved. Rajni's position appears to be somewhat ambivalent on the issue. He

recognises that in Indian culture high ideals have always been stressed and the ideological stance has always been moral, in spite of the general permissiveness towards faults and imperfections. He is also happy at the growing issue orientation in Indian politics, particularly in the post-fourth general election period. According to him, again, the days of ideology are not over in developing countries where it has still "to continuously endow politics with a moral purpose" (p 451). Democratic politics in a developing country still needs an ideological utopia and yet Rajni shudders at the prospects of ideological polarisation which to him would spell chaos. One, therefore, begins to feel that in his case consensus itself is the ideology. He is also perhaps not making a distinction between system consensus as enshrined in the preamble of the Constitution of India and consensus among political parties. One may hypothesise that ideological polarisation among political parties may serve the cause of system consensus better than ideological ambivalence which would be another name for consensus as an ideology. It may also be pointed out in this connection that polarisation may not always be bi-polar as Marxian theorists would postulate, it can be tri-polar and even multi-polar.

More importantly, even when ideological polarisation takes place, the centrist party or parties may continue to play a critical role. Above all, ideological polarisation may not necessarily appear to be anti-democracy or anti-coalitional politics if for a while one could get away from the consensual style of political analysis that, in fact, is a lingering legacy of the Congress system among the academics and the intellectuals in the country. The image of the Congress system still dominates our political analysts both in India and abroad, who are inclined to wish away both the eclipse and the spirit of the Congress as unwanted interlopers. At times, though not very often, one has the feeling that Rajni's analysis also is haunted by a similar obsession. Despite the unresolved dilemma of *ideology versus consensus*, Rajni Kothari's "Politics in India" is stimulating all through. He thinks for himself and makes others think; it is immaterial whether they agree with him or not.

Notes

- 1 Bernard Crick: "In Defence of Politics", Weidenfeld and Nicolson, London, 1962, p 156.
- 2 Published in the *Series in Comparative Politics* by Little, Brown and Company, Boston, USA, in 1970.

It is published in India by Orient Longmans.

The theoretical framework for the cross-cultural comparative series had been evolved by Gabriel A Almond and G Bingham Powell in a book entitled "Comparative Politics: A Developmental Approach", Little, Brown and Company, USA, in 1966. Rajni Kothari, besides, covering the principal themes as delineated in Almond and Powell's book has also dealt with such important themes as national integration, economic development and foreign policy.

- 3 Cf S K Arora: "Pre-empted Future? Notes on Theories of Political Development", *Behavioural Sciences and Community Development*, Vol 2, No 2, September 1968, pp 85-120.

- 4 For earlier attempts see Ward and Macrides (eds), "Modern Political Systems — Asia", Prentice Hall, 1963, in which Richard L Park writes on India and talks about the "Foundations of Politics: History", pp 222-240.

Also see W H Morris-Jones: "The Government and Politics of India", London, 1964, pp 13-47, in which the author delineates the major legacies of history particularly in modern India.

- 5 Rajni has studied these factors as part of political institutionalisation and national integration (pp 320-334), but he does not do so against the conjunctural perspective suggested here.

TABLE: SHORT-TERM MONEY MARKET INSTRUMENTS OUTSTANDING, 1960-67 (in million dollars)

End of Year	Negotiable Certificates of Deposits	Treasury Bills	Federal Agency Securities	Commercial Paper Placed Directly	Bankers' Acceptances
1	2	3	4	5	6
1960	796	39,446	4,414	3,139	1,358
1961	2,782	43,444	4,399	2,975	1,711
1962	5,442*	48,250	5,787	3,912	2,088
1963	9,593	51,539	7,360	4,819	1,928
1964	12,585	56,476	7,410	6,138	2,223
1965	16,078	60,177	9,253	7,155	1,903
1966	15,659	64,684	13,570	10,190	3,089
1967	20,330	69,870	11,692	12,183	4,901

* As on December 5, 1962.

Source: The Bulletin, Numbers 53-54, February 1969, of the Institute of Finance of the New York University Graduate School of Business Administration; p 13.

Certificates of deposits to business corporations and to other types of depositors with a view to attracting additional funds. The banks in the US were also encouraged to issue CDs by the action of the Federal Reserve regarding maximum interests payable on time deposits. Each time the ceiling appeared to be preventing (or about to prevent) banks from offering competitive rates on CDs, as rates on other money market instruments rose, the ceiling was increased. There were four such increases during 1962-65, making it possible for CDs to remain competitive. Three of these increases occurred when there was an increase in the Federal Reserve discount rate.

For the short-term investors in the US, a factor favouring CD expansion was the substantial flow of internal funds from retained earnings and depreciation — which was high in relation to expenditures on plant and equipment — and inventories. Consequently, many corporations had funds available for temporary investment outside the business and CDs were highly acceptable to them and to other short-term investors for investing temporarily idle funds. As a result, within a few years, CDs became the second most important money market instrument in the US money market, as will be seen from the Table.

Negotiable certificates of deposits provide opportunities to the commercial banks to capture some of the funds that would otherwise flow into alternative money market instruments. Further, CDs facilitate a measure of discretionary control by banks over the volume of deposits.

Negotiable certificates of deposits provide banks with the opportunity to augment their resources by tapping additional sources of funds. In parti-

cular, large well known banks can use CDs to obtain funds from outside their geographic regions. The growth potential of banks, therefore, is not limited to the volume of funds available in their own regions. In fact, CDs would enable banks located in regions of relatively slow economic growth to reach out and 'import growth' from other areas and from sectors of the money market previously pre-empted by other debt instruments.

Secondly, a bank recognised in the CD market can usually attract additional funds by raising the interest on CDs slightly above the prevailing rates offered by other banks. At times, when the banks do not wish to have additional funds or deposits at current prices, it may reduce the rates of interest offered on CDs below the prevailing level.

Thirdly, because of the control that a bank would have over its total volume of CDs, the negotiable instrument may be employed in the management of a bank's reserves position. Such management consists of action taken by a bank to increase or decrease primary reserves in response to changes in the need for reserves, mainly as a result of fluctuations in deposits or as a result of rise or fall in loan demand.

Fourthly, the use of negotiable certificates and other liability instruments by banks, to regulate the volume of funds available to them, has given rise to the term 'liability management'. This means that a bank may look to the liability side of its balance-sheet in regard to liquidity requirements. If necessary, additional funds could be obtained by increasing liabilities. This is in contrast with the older and more traditional approach of maintaining a portfolio of secondary reserves in short-term Government securities and other liquid assets which could be sold to

meet deposit withdrawals or increased loan demands.

Lastly, negotiable certificates have the advantage of specified maturity. At any given time, the scheduled outflow of funds is known to a bank. Thus the dimension of the refunding problem is determinable. When market conditions are favourable, a bank may 'space out' its CDs maturities by issuing some certificates in longer maturity areas.

A principal disadvantage of negotiable certificates of deposits is that banks may, at times, be unable to refund maturities readily, and outstandings may contract sharply. The cost of CDs may also be regarded as another disadvantage of banks, since these funds are expensive in relation to other demand deposits. It may not be possible always to employ CD funds at a return above instant and handling costs after giving effect to reserve requirements and the need to hold a portion of the proceeds in liquid assets to provide for possible contraction in CD volume. Theoretically, however, the cost of deposit represented by negotiable certificate should not raise any problem regarding profitability. Seeking to maximise profits, a bank will endeavour to attract CD funds up to the point where the marginal revenue earned on the funds equals the cost of obtaining them.

Lastly, it is argued, that CDs may draw funds out of demand deposits. To the extent that CDs act as a substitute for demand deposits, this complaint would be valid. But CDs appear to be a closer substitute for other money market instruments than for demand deposits, and that, in the absence of CDs, these funds would have been invested in alternative papers.

The market for negotiable certificates of deposits could be classified into two main groups — the primary market and the secondary market.

In the primary market, the most important purchasers are the business corporations and sellers are the issuing banks. The business corporations invest large sums in CDs and other money market instruments, so that only minimum cash balances required for day to day operations are maintained and all temporarily idle funds earn interest. A negotiable certificate is well suited for such purposes, since the bank can fix the maturity for the specific date on which the cash will be needed by the purchaser. Accordingly, there is usually a concentration of CDs maturities around major tax and dividend payment dates. Among the others, the State

SPECIAL ARTICLES

Negotiable Certificate of Deposit

A New Monetary Instrument

M L Murdeshwar

The introduction of the Negotiable Certificates of Deposits would provide one more avenue for savings through the banking system and they would be an addition to the facilities presently available, viz, Savings Bank Account, Current Account, Recurring Deposits and Fixed Deposits for varying periods, besides other small savings instruments of the Government.

In view of their negotiability, the CDs are likely to be acceptable particularly to large business corporations, mutual funds, trusts, local authorities, municipalities, etc, who could thus invest their temporary idle funds.

Further, the CDs would provide banks with an opportunity to tap additional sources of funds by offering attractive rates of interest.

[This article represents the personal views of the author.]

A NEGOTIABLE Certificate of Deposit, or CD, as it is frequently called, is a certificate issued by a bank evidencing the deposit of funds payable at a future date and which can be legally transferred from one party to another simply by endorsement and delivery, if the certificate is payable to the order

of a party named in the instrument or by delivery only when the certificate is payable to the 'bearer'. The Negotiable Certificates of Deposits (CDs) were little known, and even less used in money markets, as financial instruments till the beginning of the 1960s. But in recent years, these have made much

progress, particularly in the US.

The origin of these certificates can be traced to the 1960s when major banks in New York, prompted by the relatively slow growth of deposits partly because of the practice of corporations of investing their excess funds in short-term paper, began to offer Negotiable

and local governments and municipalities, the foreign official institutions, foundations, mutual funds, savings banks, insurance companies, bank trust funds, and individuals, also invest part of their temporarily idle funds in CDs.

In the USA, a secondary market was initiated to provide liquidity, to make the negotiable certificates attractive as short-term investment, and to enable the purchasers to convert their CDs into cash if necessary before maturity, since the issuing banks themselves may not agree to redeem their own certificates. This has contributed significantly to the rise of negotiable certificates as a major money market instrument.

The participants in the secondary market are largely dealers and the investors. The behaviour of dealers, of course, will depend on the money market conditions and on the anticipated money market trends in interest rates. Holders of negotiable instruments would be prompted to sell CDs from time to time for two principal reasons: (1) to raise cash for purposes which were not anticipated and (2) to sell at a higher price with a view to making profit.

For purchasers, the main reason for purchasing from the secondary market rather than from the issuing banks, is the attraction of higher interest rates and shorter maturities.

The behaviour of CD rates and the responsiveness of market participants reflect, to a significant extent, the competition that CDs encounter from other money market instruments. Inasmuch as these instruments compete actively for short-term funds, their interest rates are linked together and would normally move in the same direction as would the prices of substitute instruments.

CD rates are generally influenced by the market standing of the issuing bank. Thus prominent banks would be in a position to issue CDs at lower rates than smaller regional banks. The types of prospective purchasers also have an influence on the interest rate of a newly issued CD. Thus, if the purchaser is a valued customer, the issuing bank may be willing to offer a higher rate to him than to a prospective purchaser who has no other dealings with the bank. Interest rates on negotiable certificates of deposits reflect their status as a money market instrument. The sensitivity of certificate rates to movements in the other rates serves to emphasise that, CDs are an alternative to other short-term investment media.

On the basis of the US experience, it appears that CDs may, to some extent,

have a more important role in the rationing of credit under tight money conditions. Faced with strong credit demands, the banks would raise interest on CDs with a view to attracting funds needed and in turn would raise the rate charged to borrowers. To a large extent, the demand for loanable funds would be equated with the supply through the rate of interest mechanism. In the absence of CDs, banks would presumably rely more extensively on non-price credit rationing, i.e., by ways other than raising lending rates.

CDs may also contribute to the efficacy of interest rates in allocating credit not only within the banking system but also between the banking system and other intermediaries in the money and capital markets. If banks have more profitable uses for funds than other intermediaries, banks would bid the funds away by offering interest rates which are more attractive than those paid by the other intermediaries. Thus, command over economic resources would be shifted to bank borrowers. Conversely, the flow of funds could be drawn away by other intermediaries when they have more profitable opportunities to employ funds. This would help monetary policy to achieve a productive allocation of credit to the extent that interest rates can in fact allocate credit more productively than non-price market conventions.

It is also possible that CDs may, at times, impede a restrictive monetary policy. This may happen because bank

credit expansion may continue at a relatively high rate even as monetary policy becomes more restrictive. By issuing CDs, banks may draft the funds away from non-banking financial intermediaries and direct borrowers.

Secondly, changes in the structure of interest rates under tight money conditions may discourage banks from issuing CDs at higher rates. As policy restraint is applied, rates on CDs and other money market instruments are likely to rise more rapidly than bank lending rates, making further bank expansion, viz., of CDs, increasingly less profitable and eventually unprofitable.

CDs may also raise problems for monetary policy by the manner in which they contribute to a redistribution of resources among financial institutions. Thus, CDs enable large, nationally recognised banks to bid deposits away from smaller banks. The large banks have a competitive advantage because their CDs are preferred by large financial corporations and by other investors in the money markets. This advantage is said to be particularly important in periods of monetary restraint when the pressure on large banks may be mitigated by their ability to raise funds in the market. Consequently, a restrictive monetary policy will have an adverse impact on the smaller banks.

The redistribution of resources as between the banking system, on the one hand, and direct market borrowers, on the other, would also raise a policy issue for the monetary authorities.

Jiyajeerao Cotton

JIYAJEERAO Cotton has applied for an industrial licence to manufacture 100 tonnes per day of caustic-chlorine near the petrochemical complex at Baroda. Its proposal for expanding soda ash capacity, from 500 tonnes to 800 tonnes per day, has been turned down. The management is seeking reconsideration of the proposal by government. During its 70th year, ended March 1970, the chemicals division at Porbandar showed marked improvement with higher production in all the units. Production of soda ash was up 14 per cent at 1,40,770 tonnes, and the plant is now running at the rated capacity of 500 tonnes a day. Output of caustic soda rose by six per cent to 20,252 tonnes, refined sodium bicarbonate by 20 per cent to 4,524 tonnes and ammonium bicarbonate by 15 per cent to 144 tonnes. Price of caustic soda was increased by Rs 34 per tonne during the latter part of the year,

while increase in price of soda ash is under consideration. The textile division also worked satisfactorily. Machinery of the value of Rs 79 lakhs was installed, and implementation of the programme for commissioning of further machinery is being expedited. Profits of new spinning units were satisfactory during the year, but the directors point out that increase in excise duty on polyester fibre levied in the last Budget has imposed an additional burden. Total net sales expanded from Rs 24.59 crores to Rs 26.37 crores, and gross profit from Rs 2.62 crores to Rs 3.77 crores. Net profit was also higher at Rs 2.37 crores (Rs 1.76 crores) to cover equity distribution, stepped up from 12.5 per cent to 15 per cent, 3.3 times and to provide a return of 14.6 per cent on the total funds employed in business.

LUSAKA — I

Our Little Barks are Frail...

G P Deshpande

THE West has already called the bluff. The Soviets, increasingly, find the Asian-African causes a trifle boring. The non-aligned themselves are always looking for a new window-dressing for their tried and reliable bi-alignment. It was amazing, against this background, that sixty-odd states were represented at the Third Non-aligned States Conference at Lusaka. Not only that, there seem to be new aspirants to membership of this club. Trinidad, in fact, sought admission and got it. Pakistan had made a similar but an unsuccessful effort at the Preparatory Conference at Dar-es-Salaam earlier this year. Evidently the term non-alignment not only retains some of its charm, but also continues to be the status symbol *par excellence*!

This is the reason why these statesmen met at a brand new building specially constructed for the conference at Lusaka at a cost of 8 crores of rupees. How many arms these eight crores would have bought for the guerillas fighting in Southern Africa is an idle question; for a grand resolution condemning all the concerned powers was passed from the same building. The non-aligned leaders, astute statesmen as they were, did not go further. Indira Gandhi recalled our glorious freedom struggle and said that the Africans were fighting the same struggle as we ourselves had in the recent past. Everybody had something to say in this vein. The non-aligned summit, however, had no blueprint made for what these emergent countries could do to help the cause of liberation in Africa south of the Zimbabwe. The non-aligned shall periodically pass resolutions condemning the United States, France, West Germany, Britain and Japan (as they did at Lusaka) and shall keep quiet till the next summit. The advanced states have, it would seem, come to see through these slogans. They do not worry about them any longer. Meanwhile we have only a mild reproach for the British duplicity in Rhodesia and South Africa. The Commonwealth survives in spite of Enoch Powells and meaningless economic sanction against Ian Smith. It seems, like a dip in the Holy Ganga, a resolution every five years or so will wash us off our guilt by association!

This is only one illustration of the wordy inaction to which the non-aligned states chose to stick at Lusaka. Obviously they had no choice. Having taken a heavy intake of foreign aid, their talk of independence was bound to be hollow. Indira Gandhi made a reference to 'neo-colonialism', something which her father had never done. It was a refreshing change. She went on to assert that neo-colonialism had no sympathy with effort of developing countries to achieve self-reliance because it would reduce economic leverage now used "for thinly disguised political purposes". There could hardly be a disagreement with this statement. But then, what should the non-aligned do about it or, for that matter, what has India done about it, were questions she had no time to answer. The much talked about self-reliance remains as far away as ever. But talking about it once in a way probably absolves one of the responsibility of doing anything about it. Words have become an opium of the ruling elite in the non-aligned states. Lusaka demonstrated that.

The Lusaka meeting was an extremely well behaved one. Their area of action or rather declaration was limited to the area circumscribed by the super powers. In other words, a good deal of care was taken to see that the 'bi-alignment' remained untouched. On the thorny problem of Vietnam, Mme Binh and her PRG were kept out. 'Neo-colonialism' is best resisted by keeping the fighters in the observers' seats! Then there was the very diplomatic stand taken by India, "the giant among the non-aligned states". Indira Gandhi called upon "the United States to give a lead for withdrawal of all foreign forces from Indo-China". A respectable non-aligned language all right but it must sound a little strange to Vietnamese ears! The only foreign forces in Vietnam are American forces (with the token presence of the allied forces). So what does "US giving lead for withdrawal of all foreign forces" mean? It implies, above all, that India accepts that there are foreign troops fighting on both sides of the civil war in South Vietnam; except that she would like US to take a lead in withdrawal of troops. Now that US has already given a lead inasmuch as it has started

withdrawing its troops, the other party would do better to take note of it. It is difficult to view Indira Gandhi's stirring call at Lusaka from a point of view other than this. President Nixon has not much to worry about India's posture. It is sound! The Soviets, equally, must be happy that the Czech affair was forgotten. Marshal Tito who was so hurt way back in 1968 over the incidents in Czechoslovakia indeed looked very composed at Lusaka!

So they had everything. They gave a grand ovation to Mme Binh, and talked glibly of foreign troops in Vietnam. They admired President Nasser's "courage" in accepting the Rogers' plan for peace in West Asia also referred to the "inalienable right of the people of Palestine to homelands from which they were exiled". They shed a tear for the blacks of South Africa and Rhodesia. They were angry about the continued Portuguese colonialism. They kept their joint bosses happy and talked of self-reliance. They, in fact, went a step further. They found out that their non-alignment was the correct one and the relevant one.

What is the reason for this sad state in which non-alignment finds itself? During the fifties it was a potent and dynamic doctrine. Why has it ceased to be so? The most popular explanation is that the international situation has changed. That is partly true; but it misses the central point. In the early fifties both the Soviet Union and the United States were trying to force a world order on the underdeveloped world through military pacts and agreements. Nehru's India drew its strength because it defied both the super powers in this attempt. Once again we witness both the super powers forcing a world order on the rest of the powers not through military pacts but through diplomacy. The difference is that the non-aligned world has lost the will and the élan to defy them once again. It has, in fact, reconciled to its weakness and lack of will. A few words remain and a few memories too. But the strength is gone. Malcolm Lowry, in one of his short stories, has used a fishermen's song which reads in part:

Strong is Thine arm, our little barks are frail,

Send us Thy help . . .

This is the power equation between the super powers and the Asian-African States. (Except that thine and they will have to be replaced by plural forms!) The non-aligned exercise at Lusaka has confirmed it.

LUSAKA — II

A Profit and Loss Account

V Subramaniam

A WEEK of ceremonial airport receptions and send-offs, of gun salutes and colourful cavalcades, of speeches and applause in perhaps the best-appointed conference hall in Africa, of closed sessions and open resolutions and the clang of hundreds of press typewriters, is now over and it is time to make a rough balance-sheet of the Conference. The apparent immediate goodwill created by the Conference is evident on the faces of the participants. Closing the Conference, the President of Zambia burst into song calling his wife his girlfriend; Madame Binh beamed with pride as the delegates gave her thunderous applause; the leaders of the freedom movements in Rhodesia and Portuguese Africa were happy to have obtained more than a hearing, indeed even some tangible support, and Indira Gandhi exuded an aura of subdued satisfaction. In fact most delegates seemed happy to have attended. On the other side, the South African radio hurled abuse at the Conference for plotting to destroy Western civilisation while most other Western media played down the Conference. There is, of course, the obvious balance-sheet. The more important, long-term one, cannot be calculated till something is known about the follow-up to the Conference spirit and resolutions. But an immediate calculation is worthwhile as the events remain fresh in one's mind.

THE PROCEEDINGS

A brief account of the preparations and proceedings would set the calculations in perspective. When Lusaka was agreed upon as the venue, at the Dar-es-Salaam preparatory committee meeting, there were hardly three months left for preparation. The Government of Zambia threw itself heart and soul into building what is now the best conference hall in Africa. The cost, as in all such cases, could never be estimated in advance and kept soaring up. There was no dearth of local critics on this score but the Government spared neither money nor effort in completing the building on schedule. And excluding the local-government elections in August all effort was concentrated on making the Conference a success. Accommodation for delegations and pressmen was either built or com-

mandeered in time and nothing was spared in regard to pomp and ceremony either. As a phenomenon or event the Conference was the biggest of its type and went off in style.

As regards the actual proceedings, the open sessions dominated the Conference to a rather unusual extent. This was not unexpected; with 63 national delegations, the only way to give each a reasonable chance to express itself was to let each head of delegation make a speech. As most of them wanted to say the same thing on the same issues, this made the open sessions a little too formalised. There were a few exceptions, such as President Obote of Uganda who circulated copies of his intended speech beforehand and made only a few extempore remarks at the session itself. Again some speeches were exceptional. The President of Zambia set the tone with his opening speech and referred to the more important issues to be discussed. His deep concern with the unabashed racial regimes next door was not unexpected but his intense commitment was made evident to the delegates as he broke down in the course of his references to the Western powers helping the racist regimes. Indira Gandhi's plea for greater economic co-operation among the non-aligned was taken up with great enthusiasm. Madame Binh made a real hit with a short speech summarising the case for US withdrawal. In content it contained nothing new, but her very presence, like that of a female David, and her delivery, drew thunderous applause. The Cuban speech was also well received.

The Foreign Ministers met earlier and formed economic and political committees which drafted most of the resolutions. There were four short closed sessions of heads of state. On most resolutions, the discussion could only have been concerned with the wording. However, concerning Chinese admission to the UN, it is known that this terminological discussion was not in India's favour. In place of a business-like wording calling for China's admission, the Conference favoured a virtual admonition of the UN and the Western powers with an implied "or else". The resolutions on South Africa, Rhodesia and Portuguese Africa naturally elicited

ed both enthusiasm and unanimity whilst that on economic co-operation came a good second.

The press and radio coverage of the Conference reflected the political interests of the countries concerned. Pressmen from non-aligned countries were there in force and the Conference received the widest coverage in their papers, particularly in the English-speaking African countries. Radio South Africa gave much venomous coverage and, probably to forestall criticism about French arms sales, Radio France gave some favourable coverage. Other Western media played down the Conference.

ZAMBIAN BALANCE-SHEET

As the host country which spared neither expense nor effort, Zambia is most concerned with the balance-sheet of the Conference. The most obvious item on the credit side is the increase in the international prestige and position of Zambia and her President, which can only be described as absolutely tremendous for one of the youngest nations and youngest political parties in Africa and also one of the youngest African heads of state. The *Times of Zambia* described Kaunda's chairmanship of the Conference as his second finest hour — a correct description. One may add that his third finest hour came when he was chosen spokesman at the UN for the third world.

This accretion of international prestige is referred to by local white critics as ephemeral and intangible. Such criticism ignores the very real and tangible value of such prestige in international negotiations. Again, the very fact that one of the youngest nationalist movements in Africa has graduated to the leadership of the third world in about ten years is an eye-opener to friends and enemies alike. Nor can one accuse Kaunda of putting diplomacy above his conscience in the process. He was among the first to condemn the occupation of Czechoslovakia and support the deposed Nkrumah and the Biafran secessionists. On the two latter issues, his subsequent change of opinion was both ethically defensible and dignified.

The strong condemnation of racist regimes and a determination to do one's best to weaken them have a clear credit and a vague debit side. The chorus of condemnation clearly announces — both to the racist regimes and their supporting Western powers — that Zambia is not alone. This is not new, but does add a distinct note of urgency

to the earlier condemnations in the UN. Moreover, definite measures have been spelt out to fight the regimes through sanctions, denial of military facilities to supporting powers and by aid to the freedom fighters. On the other hand, this very determination is likely to induce some desperate reactions from the racist regimes. The onus is placed more heavily on Zambia and her friends to anticipate such moves and act calmly and courageously.

Is the Conference likely to change substantially the attitudes of countries like Malawi, Botswana and Swaziland which are tied to South Africa by economic and geographical compulsions? If it does it would be an important achievement. It is, however, too early to say anything in this regard.

The real dilemma for Zambia and her President is the same as that which faced India in the fifties. Accretion of international prestige creates additional problems and obligations for Kaunda and yet Zambia needs all his attention for at least another decade, by which time Zambia may hope to see a sizeable professional middle class of her own and some degree of economic autonomy based on a diversified economy. In a snide way, some Western countries are already using the heavy expenditure on the Conference as an excuse to ask pointless questions about Zambia's need for technical assistance. A recent instance was the way some Scandinavian experts queried the need for volunteer teachers in Zambia.

TRIUMPH FOR BINH

The two immediate beneficiaries of the Conference are, of course, Madame Binh and the freedom movements in Southern Africa. Her triumph at the Conference was almost unqualified. She was rather modest in her earlier statement in Dar-es-Salaam that she simply wanted to meet the delegates. In practice, her observer status worked out to be as good as that of a participant. In fact, few participants got as much 'recognition' as she did.

The main freedom movements are ZANU and ZAPU of Rhodesia and FRELIMO of Mozambique. The first two, according to unkind critics, spend more time fighting each other than fighting the Smith regime. This is partly true, but the underlying difficulty is that Africans are too enmeshed by the socio-economic system created by the whites in Rhodesia and South Africa to be able to revolt easily and the ex-

istence of an efficient secret police makes the task even more difficult. In Portuguese Mozambique, the general lack of comparable economic integration confers courage on those who have little to lose. FRELIMO is thus the most successful revolutionary movement in Africa. It gained the boost in morale it needs due to the mounting ruthlessness of the Portuguese authorities.

INDIA'S CONDUCT

Right from the start, Indira Gandhi retained the modest posture India has adopted in international affairs over recent years. The publicity she received was, very often, social. The usual articles about the woman Prime Minister of a great nation appeared. Kaunda's welcome was full of personal warmth for an old friend who was her father's envoy to Zambia during a crucial phase of its freedom struggle in 1963. She made little noise about India's authorship of the non-alignment concept and accepted with modesty the honour of chairing the crucial first closed session and the third open session. Her television interview produced a rather vague image and her press conference after the main Conference was unduly short. Nevertheless the total impression was a happy one. She contributed to this as much by her modest posture as her repeated stress on the existing pockets of colonialism south of the Zambezi.

This of course was not India's real contribution. Condemnation of racist regimes was a matter of common agreement rendered stale by repetition. Life was breathed into it by men like Haile Selassie of Ethiopia with his detailed programme and Burnham of Guyana with his dramatic gift to the freedom fighters. India's real contribution was focussing attention on the possibilities of economic and technical co-operation among the non-aligned. The need and urgency for this is particularly evident in Africa. The French-speaking African countries are the absolute preserve of French technical assistance and there is little possibility of changing the situation. The English-speaking African countries are less tied to the former metropolitan power, but even among them, declarations of non-dependence are far in advance of practice. The situation is rendered more complex by the fact that there is a brand of Englishman about in Africa, the sun-lover, who cannot do without "house-boys" and who would feel miserable

back in lonely, sunless Britain. Their desperate eagerness to stay on and "help" the African introduces a confusing note of self-centred sentiment into any objective discussion.

Zambia herself has diversified her sources of technical assistance away from Britain very considerably — with Italy, Yugoslavia and India playing an important part. Unlike East Africa, there is no Indian problem as such. The professional Indians, recently recruited for technical assistance, are treated as welcome visitors. The earlier residents, mainly Gujarati businessmen, had, sensibly for them, wholeheartedly supported the Zambian freedom movement under Kaunda.

Indira Gandhi seemed to ignore India's failure to pass a business-like resolution calling for the admission of Red China. The mood of the Conference was mildly pro-Chinese — a victory for the new diplomacy of the People's Republic, in contrast to Chou's last abortive African tour. China had two strong supporters apart from Madame Binh. King Mahendra of Nepal referred profusely to Chinese technical help and Lee Kuan Yew indirectly complimented China by pointing out that greater Chinese interest would alarm the Western powers and may force them to twist South Africa's arm. The support for Chinese admission to the UN later became more emotional than objective. Indira Gandhi and the Indian delegation preferred to go along with the consensus.

NO EASY ANSWER

Addressing a group of Indian nationals, the day after the closing date, she asked herself why such a big country as India was making such a weak impression on the world. She detailed the well known answers — population, monsoon failures, commitment to democratic, non-violent, economic development, etc. She denied that India was more aligned to Russia; India's aid sources were diverse but aid from Russia and East Europe going into the public sector perhaps gained more publicity. She concluded with the customary statement that every Indian abroad was an Indian ambassador.

On the whole, India's low diplomatic posture is paying off in some areas and is doing harm in others. And there is no easy answer as to why India makes such a weak impression in spite of her resources, industry, development and friendliness towards other countries.

LUSAKA — III

Retrieving a Status?

From a Correspondent

PERHAPS never before had India displayed such realism as it did at the third summit conference of non-aligned countries at Lusaka, from September 8 to 10, and perhaps never before had it secured the place in the hearts of the non-aligned world which it did at the conference because of the role it played.

From the start there were fears that the conference might split and be ruined because of the two main issues that came before it. They were: (i) which Cambodian Government — that of Prince Sihanouk or that of General Lon Nol — should be seated at the conference, and (ii) whether to admit the delegation of the Provisional Revolutionary Government of South Vietnam, led by the Liberation Front leader and Foreign Minister, Madame Nguyen Thi Binh.

Sides were taken strongly on the Cambodian issue; the majority of 46 participant countries pressing for the inclusion of Prince Sihanouk's delegation, and a determined and vociferous minority of four led by Liberia opposing the move and threatening to ruin the conference since never have issues been decided on the basis of votes in the previous non-aligned conferences but by consensus. It was here that India played the most vital role, and managed to evolve a consensus according to which Cambodia was declared a non-aligned country with no representation at the Lusaka conference!

A similar situation had occurred on the South Vietnam issue. There were countries which were pressing the conference to extend full membership to the Provisional Revolutionary Government and again an equally determined minority (Liberia, Swaziland, Democratic Republic of Congo, Kinshasa, and Lesotho) battling to keep Madame Binh's delegation out of the conference. Once again, the consensus was evolved and presented by T N Kaul of India, according to which Madame Binh's delegation was given observer status at the conference, which, though it fell short of her expectation of full membership, was graciously accepted by her delegation 'in the interest of the unity of the non-aligned countries'.

On both issues India showed that it was in the mainstream of thinking and feeling of the non-aligned nations. By not allowing the Lon Nol Government a seat at the conference, it went along with the feeling of most non-aligned countries and against the legal argument that the Lon Nol Government had been recognised by the UN.

It was strange, however, that while the conference could recognise the South Vietnam Government, it could not do so in the case of the Sihanouk Government, both of which are in the same situation of struggling against the regimes established in the capitals of their countries. Yet one felt that, had Prince Sihanouk come from Peking to lead the delegation of his country his past influence with the non-aligned world and his personality would have won for his Government the Cambodian seat that remained vacant at the conference. His Prime Minister, Pen Nouth, who came to Lusaka, could not carry that influence.

Though the conference did discuss and pass resolutions on other issues of vital importance, like South Africa, Rhodesia, the Middle East and Cyprus, the Vietnam and Indo-China problem dominated the conference. Leaders of 20 delegations, including King Mahendra of Nepal, called for the immediate and complete withdrawal of all US forces from that area so that the people of Indo-China could decide their own future. Madame Binh, who said her Government followed the policy of peace and neutrality, was heard with rapt attention and when she finished her speech the applause was long and sustained and did not seem to die down even after she left the hall. None of the other Heads of State or Government got even a fraction of that applause. The African delegations said later that the presence of the delegation of the Provisional Revolutionary Government of South Vietnam and Madame Binh were a 'source of great inspiration' to them. No other struggle has attracted the African people so much as the struggle in Vietnam.

A majority of participants also demanded that China should be admitted to the United Nations.

There was far greater militancy at

the Lusaka conference than there had been at the previous two non-aligned conferences at Belgrade (in 1961) and at Cairo (in 1964). The Lusaka conference, for the first time in the history of the non-aligned movement, pledged material help to the African peoples' struggle in South Africa, Rhodesia and the Portuguese territories of Angola, Mozambique and Guinea Bissau. The past two non-aligned conferences had offered only political and moral support to the liberation struggle in Africa. The Prime Minister of Guyana, Burnham, promptly presented a cheque of 15,000 sterling pounds as his country's contribution towards material help to the liberation struggles. It was decided that all material help should be channelled through the Liberation Committee of the Organisation of African Unity, whose headquarters is at Addis Ababa.

The conference supported the November 1967 UN resolution on the Middle-East and also the recent ceasefire and warned Israel that, if it did not implement the 1967 UN resolution (which calls for the withdrawal of all Israeli forces from occupied Arab territories), the non-aligned countries would be forced to take measures against it. During the discussion, it was suggested that the non-aligned countries should call for UN sanctions against Israel—but these did not find place in the resolution passed.

There were attempts to set up an institution to implement the decisions of the conference, but these were later ruled out because it was feared that, by doing so, another bloc might be created in the already divided world. The Foreign Ministers and senior officials were, however, asked to meet regularly to review the progress of the implementation of the conference's decisions. It was also decided that the Chairman of the conference, the President of Zambia, Kenneth Kaunda, should keep in touch with the Heads of States and Governments of non-aligned countries, in order to co-ordinate, strengthen and implement the conference decisions.

It was felt that there was no need to redefine 'non-alignment', but that what was needed was a rededication of all non-aligned nations to non-alignment's central aims and objectives which were: to keep out of military alliances, to work for the economic development and progress of the countries, and to strengthen their security and non-interference in the internal affairs of one another.

FROM THE CHAIR

Mukand Iron and Steel Works Limited

Statement of the Chairman, Shri Kamalnayan Bajaj

THE following Statement by Mr Kamalnayan Bajaj, Chairman, Mukand Iron and Steel Works Limited, was circulated along with the Annual Report of the Company for the year 1969-70.

In the last decade human achievements in the field of science and technology have been spectacular. Man landed on the Moon. Astronauts struck with near disaster over 300,000 kilometres away in outer space could be retrieved with superb team work combined with grit and determination. Hearts were successfully transplanted. Artificial genes were produced in the laboratory. While we can be legitimately proud of these and similar other achievements, they should not make us conceited and arrogant. We have just touched the fringe of vast and unexplored nature. Even today we have not created anything absolutely new without taking the existing base. It is necessary to view our achievements in the correct perspective or else ill-placed pride and conceit would lead only to further strife among nations and ultimate destruction of mankind.

The widening of the horizons made possible by the technological progress has cast special responsibilities on the leadership the world over. If they continue to pay only lip-sympathy to human welfare and world peace and allow their foreign policies to be guided solely by narrow national selfishness, they will only hasten the day of doom. The need of the hour is to broaden both our mind and vision. Even the so-called powers must be prepared to subordinate their sovereignty gradually, and accept the obligation to create a World Government for the larger welfare of mankind.

POLITICAL SCENE

Most of the Asian and African countries have been under serious political tensions for some years. In the Middle East, the Arab-Israeli conflict continues to simmer. In the East, the fury of the bloody war in Vietnam has spread to neighbouring countries like Cambodia and Laos. India, on the other hand, has enjoyed relative stability at the Centre and the fact that Mrs Indira Gandhi has been in her present office for nearly five years at a stretch is no doubt an achievement of sorts.

If the stability was on the basis of

solid support of an ideologically inspired following, there was no need for much anxiety irrespective of the complexion of the supporters. But, unfortunately, what we witness today is a compromise even on basic principles. While the Central Government professes allegiance to secularism and democracy, at the same time it does not mind continuing in power essentially with the support of Communists and communalist parties like DMK and Muslim League. Such opportunism on the part of the ruling party naturally casts a shadow of cynicism over the nation.

The danger signals are manifest in a more pronounced way by what is happening in the different States of our Union. The situation has deteriorated so much that even when a Chief Minister gets the assembly prorogued when he is on the brink of defeat nothing else happens except raising of a few eyebrows. Defections from one party to another are accepted with no less resignation. It is considered axiomatic that to continue in power a series of compromises with disparate groups and individuals are unavoidable.

This is a highly disturbing situation. On the external front, slowly but surely the Chinese dragon is spreading its tentacles. Pakistan went under its sphere of influence some years ago. Now Ceylon has opted for a pro-Peking government. Internally, parties with extra-territorial loyalties have been gaining increasing ground in many States, particularly in West Bengal, Kerala and Andhra. With generous supplies of arms and funds from abroad the Naxalites are spreading class hatred and carrying on their campaign of arson, loot and murder without any inhibitions. This is, in fact, external aggression manifested through the internal political parties. When the safety, security and integrity of the country are in danger, and life, property and honour are at stake, it is the duty of all patriotic people and parties who have the interest of the country at heart to forget their petty differences and come together as they did at the time of the external aggressions in 1962 and 1965.

ECONOMIC SCENE

Apparently, India has not done too badly in the recent past in the economic

sphere. The rate of growth in industrial production has been maintained between 6 to 7 per cent in the last two years. The annual food production which had stagnated around 80 million tonnes all through the Third Plan period, except in 1964-65, it now around 100 million tonnes. Even though use of exotic seeds does have some blind spots, they are getting increasingly popular, and so are the other modern agricultural practices. We can, therefore, look forward with reasonable confidence to attaining self-sufficiency in foodgrains, subject to the wild vagaries of the monsoon.

There is, however, no justification for undue elation. The so-called "Green Revolution" is not solely confined to India. Almost all the countries in South-East Asia have attained spectacular growth rates in food production. A country like Japan, with relatively less cultivable land has not only become self-sufficient in its rice requirements, but is actually faced with a glut in production.

Thus, the performance of Indian agriculture, though relatively good, is yet far from being really impressive or satisfying. A word of caution would also be necessary in respect of chemical fertilisers. Their indiscriminate and exclusive use without any organic manures can prove harmful in the long run.

It is a well known phenomenon that inflationary forces allowed to grow unbridled can destroy all the benefits of the developmental effort. A small dose of deficit finance may in fact spur the rate of economic growth; but it is a dangerous medicine. One is allured to take an overdose and in the bargain economic development becomes the first casualty. It is necessary to sound a note of warning on this count because in spite of good agricultural production, there has been an increase of about 3.7 per cent in the wholesale price index during the last year. With the continued increase in the rate of money supply with the public, the economy has a strong inflationary potential and mere brave words on the part of the authorities will not be adequate to control prices.

Our exports have been slowly rising and the SDR scheme of the International Monetary Fund has offered additional

foreign exchange support. The imports are dwindling, partly on account of import substitution, and on the whole our foreign exchange position is comfortable. But we must remember that lower imports are mainly due to a slow-down in the tempo of development. The large foreign exchange balance in this context should be more a matter of concern, rather than elation.

Although our exports have risen during the last year, the rate of increase has been less than 4 per cent as against 7 per cent contemplated by the Fourth Plan and 13.5 per cent achieved in 1968-69. A possible recession in the USA with its inevitable impact on the world economy may prove to be a serious impediment in the expansion of our exports. Already the US Government has been forced to adopt restrictive import policies to safeguard their own interests and other developed countries may follow suit. Developing nations like India, under such circumstances, may face an uphill task in increasing their exports unless they take special plans to increase production and reduce costs to make their products competitive in the international markets.

SOCIALISTIC ERA

The budget for 1970-71 was hailed by interested parties as ushering in a socialistic era. But it has not offered any positive incentives for increasing savings and investments and creation of more goods and services. It is quite right to think in terms of equitable distribution of wealth. But where is the wealth? It is of prime importance to create wealth first. In a country of wants like ours, production must take precedence over distribution or else we would be only distributing poverty.

Bank nationalisation was carried out last year with great fan-fare and unprecedented official publicity. But the benefits to the common man, even after 12 months of nationalisation, have been rather intangible. Even deposits which constitute the main resources of the banks to help the community have grown at a slower rate after nationalisation. Further, there is disturbing evidence that all the ills of bureaucratic control have started manifesting themselves in the working of the nationalised banks.

If the inflation persists and the climate for investment continues to be cold, people may divert more of their savings to the banks merely because they offer safety and security. In this process the bank deposits may once again show a good growth rate. But

that is not necessarily a healthy sign. Real development would take place only if production on all fronts increases and prices come down. To make this possible we must have an efficient banking system which not only plans for deposit mobilisation but also for proper credit planning. Now that the Government has assumed more or less absolute powers it should be alert to see that the hard-earned savings of the community are not frittered away for furthering pet schemes of the politicians but the economy is provided with a forceful stimulus in the correct direction.

Credit planning is intrinsically a highly complex subject and must be handled expertly. In all the three Plans paucity of monetary resources was never a problem. Since the Government is able to take recourse to such flexible means of resource mobilisation as borrowing from internal and external sources and fiscal measures like increased taxation and deficit financing, it should have been possible to meet the genuine needs of the public sector undertakings during the Fourth Plan period without tapping the resources of the banks and other financial institutions. But for reasons best known to itself, the Government has proposed to finance part of the needs of the public sector from these institutions. Since the total resources of the community are limited, there is a genuine fear that under these circumstances the private sector may be starved of funds and may not reach anywhere near the Fourth Plan target of Rs 9000 crores set for it.

It is unfortunate that the performance of the public sector is still far from satisfactory. Some improvement is expected, but it is premature to make a reliable assessment at this stage. If the public sector starts earning reasonable returns on investment, instead of being a drag on the economy as at present, it would make a positive contribution to economic growth and in the process would not need to take recourse to institutional finance.

IRON AND STEEL INDUSTRY

Once again the country is facing a serious steel shortage. Its real depth is not known because no serious study of the subject has yet been made by any competent agency. It is no doubt true that since the pall of recession started lifting some 18 months ago, the demand for steel has been growing. In

the meanwhile, no new capacities have been installed. On the other hand, our existing plants are not able to work to more than 60 per cent of their rated capacities on the whole for various reasons. The current steel shortage is basically a result of such factors.

STEEL SHORTAGES

It is pertinent to note in this context that the psychology of steel shortages has had an important side-effect. It has made a mockery of even the modest steel export programme drawn up earlier. This is unfortunate because there is real danger of our losing permanently the export markets assiduously built up over the years. The Government has announced its decision to set up three new steel plants in the South. It is a good decision but finished steel from these plants would come to the market only 7 to 8 years hence. It is, therefore, necessary to devise short-term measures for alleviating the difficulties created by the present shortage. In this context it is necessary to appreciate the need to set up mini steel plants based on continuous casting technology in different parts of the country. With relatively small investment, and also a smaller gestation period, such plants will provide an early short-term solution to the problem of acute shortage. For this to become a reality, the Government must adopt a pragmatic attitude. So far only the Heavy Engineering Corporation, Ranchi, has been licensed to manufacture continuous casting plants. But the Corporation has no expertise in this respect and has not built a single continuous casting machine as yet. Its designs are, probably, already outdated. Moreover, its performance in supplying even conventional equipment to Bokaro is dismal. Under such conditions, it is necessary to license some more parties to manufacture continuous casting plants. It would also be necessary to encourage the setting up of plants for the manufacture of sponge iron which can effectively replace steel scrap for use in the arc furnaces. The provisions of the Industrial Development and Regulation Act should not stand in the way of achieving this.

The Rolling Industry continues to be faced with acute billet shortage. The installed capacity of billet rollers as assessed by the Technical Committee appointed by the Union Government is 2,30,000 tonnes per month on a two-shift basis. As against this, in December 1968, the Government promised to supply 75,000 tonnes per month, but

the actual despatches were always lower, and have in fact been dwindling. In the last four months they have come down to just 30,000 tonnes on an average per month which is hardly adequate even for a truncated one-shift working. It was stated by the Government that the Fourth Plan expansion of Bhilai would bring an additional annual capacity to manufacture 5,60,000

tonnes of billets for sale. But it is reported that even this expansion has been relegated to the Fifth Plan period. As such, no material change is likely, in the near future, in the fortunes of the Rolling Industry which provides direct employment to over 60,000 people and represents an investment exceeding Rs 100 crores, unless the Government takes early steps to facilitate

the setting up of sponge iron and mini steel plants.

KAMALNAYAN BAJAJ
Chairman

15th August, 1970

Note: This does not purport to be a record of the proceedings of the 32nd Annual General Meeting which will be held in Bombay on September 29th, 1970.

International Tractor Company of India Limited

Statement of the Chairman, Mr Keshub Mahindra

THE following is the statement made by the Chairman Mr Keshub Mahindra on the occasion of the Seventh Annual General Meeting of International Tractor Company of India Limited held at the Taj Mahal Hotel, Bombay on Friday, 18th September 1970.

The Annual Report of the Company has been in your hands for sometime and I hope that you consider the performance satisfactory. The report submitted to you by your Directors is clear and precise, highlighting for you some of the important events of the year under review and commenting on the problems of the tractor industry. This year also sees the cessation of the Secretaries and Treasurers and I hope that in your judgment they have fulfilled both their responsibilities and their obligations to you in a manner which you have found satisfactory.

I feel it is my duty to put before you my personal views on some policies that are presently being pursued by Government, for these have a direct bearing on the future of your Company. It is my intention to restrict myself only to such policies which affect the tractor industry. There is the unfortunate impression in the minds of many that the shortage of tractors in the country is because the tractor industry has been unable to increase its targets of production. It is true that, at the present moment there is an acute shortage of tractors. This story is not complete without recognising the fact that for an industry like this, the gestation period is long and unless decisions are taken speedily by Government, suitably followed by quick action, this period gets extended further and further. In its anxiety to meet this gap between demand and production the Government is pursuing policies which will create problems for which there will be no solutions in the future. Let us examine these policies.

To begin with, Government is importing large quantities of completely built

up tractors of many makes and many models from many countries. Many of these are of doubtful design and dubious functional capability. While these imports might relieve temporarily the shortage in the country, they will require massive imports of spare parts in the years to come to keep these tractors in operation. Where is the foreign exchange for this continuous and ever increasing need? I could understand if the tractors imported are ultimately to be really produced in the country for this would relieve the problem of servicing them with parts in the future. Conscious as I am of the difficulties that Government faces by way of foreign exchange, it is my earnest plea to it that the present policy creates more problems than it solves — for I see many of these tractors headed for junk yards in the near future. I commend and suggest to Government that while it may be necessary to bring in fully built up tractors from abroad to meet the present shortage, it would be worthwhile for the country to use foreign exchange to import only such makes which are presently made in the country or import such models for which approvals have been given for manufacture and where Government is fully satisfied that such schemes are being seriously implemented. I suggest a re-examination by Government of its present policy in this respect.

The second issue which is causing me grave concern is the action that Government has taken to licence about fifteen manufacturers to produce a total of approximately 130,000 tractors. A tractor by design is an engineering product which is very akin to an automobile. It possesses all the same basic ingredients like engines, axles and transmissions lacking only the sophistication of a body. By the very definition of its use, it is more rugged and versatile and possesses operating features which are necessarily different. Nevertheless, from the point of view of manufacture,

tractors and automobiles are very akin and as such experience all over the world has shown that if one expects to produce such sophisticated engineering products at reasonable costs, this can only be done through bigger and bigger volumes. The ultimate effect of the present policy can only be that if volumes are small it will cost producers more to manufacture and the consumer will have to pay higher prices for the products. I therefore fail to understand for whose benefit this policy has been framed.

The existing manufacturers have achieved a very high indigenous content for their tractors, and for all new manufacturers, in the initial years, a higher imported content is inescapable causing a heavy draft on our foreign exchange resources. With individual low volumes, I dare say, that the manufacturers will not be in a position to give adequate training and after sales service to the farmers spread over a vast country — many a time in areas where access is difficult. I fear that if the Government's present policy is pursued, the Indian farmer is destined for many, many years to be saddled with expensive tractors whose costs will bear no relationship to the international prices of similar tractors. Lest I be misunderstood, I am not in any way suggesting that there should be restrictions on the further licensing of tractors so as to avoid competition. On the contrary, I welcome competition but competition which is fair, competition which enables a producer to provide products of high quality, with full consciousness as to his responsibilities to provide service that is the inherent right of a consumer when he purchases a product. While we protect the interest of the consumer, we must equally ask for a fair deal for the shareholders who boldly venture their monies by way of investments into basic industries which require many years of gestation, and who risk their savings and do not generally receive

any returns for four to five years. This brings me to the most disturbing part of Government policy and that is with regard to the prices of the products made by your Company.

I do not know how many of you are aware of the fact that the tractor industry is statutorily controlled by way of prices by Government. Your Directors in their Report have referred to the applications that are pending with Government for legitimate price increases. Although there is great merit in price controls particularly for commodities which are in short supply, any such controls must be fair equally to all the consumers, the producers and the shareholders. Apart from the general principles which guide price controls, the administration of such controls must be equitable. Decisions and actions must be taken speedily so as to ensure that the growth of industry is not retarded and that investors who risk capital in promoting such industries are not denied a fair and legitimate return on capital. Prices have unfortunately become very sensitive political issues but notwithstanding this

difficulty that undoubtedly exists, if Government is going to institute price controls it must also take on the responsibility of ensuring that these controls are adequately, fairly and speedily administered. There is no mystery about costs. There are the fundamental facts of inflationary pressures all around us. Prices have gone up abroad. Wages have gone up in our country. Steel, the principal raw material for a tractor is unavailable and cost of its procurement is constantly on the increase. It costs more to build plants, buy equipment, procure thousands of parts from outside suppliers — many of them from the small scale industry — these are inescapable facts. Yet the Government is loathe to recognise them — for acceptance of facts and figures is not politically expedient. Decisions have been kept pending for months with the result that tractors supplied by your Company are at prices which are completely unremunerative. I believe this applies to all producers of tractors in the country. I do not know what Government expects us to do.

Can any system expect a producer to sell at prices which are unfair? I am sure Government would not advocate such a policy. Should a Company stop supplies of a product in such need for essential development? I could not advocate such action, which would be tantamount to utter irresponsibility. And yet how do I protect your interest under such conditions? This I have attempted to do in innumerable personal discussions with Government. I can only plead once again for a quick implementation of their own policies and hope that its decisions will not be so delayed so as to affect the operations of your Company adversely in the current year. Unfortunately, decision making in this respect is not in the hands of your Company.

Your Company is engaged in increasing production and the sales in the current year, to date, have registered an increase of roughly 11 per cent over the same period of last year. I expect further increases in supplies this year. I am sure you will join me in thanking all employees of the Company who have served you so loyally.

Premier Tyres Limited

Speech of the Chairman, Shri Chandrakant S Desai

THE following is the Speech delivered by the Chairman, Shri Chandrakant S Desai, at the Tenth Annual General Meeting of Premier Tyres Limited held in Bombay on September 24, 1970:

GENTLEMEN,

I have great pleasure in welcoming you all to the Tenth Annual General Meeting of the Company.

The Statement of Accounts for the year ended 31st March 1970, and the Directors' Report thereon as also the Notice of this Meeting have been in your hands for some time now and, with your permission, I shall take them as read.

True to the expectations that we raised here last time, the past year has been an eventful one both in the realm of political developments as well as to economic policy. Confining my attention to the economic scene, I would like to stress the significance of those measures which, I believe, must exercise a lasting influence on our industrial growth. There is firstly the resumption of our Five-Year Plans with the official launching of our Fourth Plan and what is more — it is ushered in under very favourable conditions.

During 1968-69 — as the latest Annual Report of the Planning Commission shows — there was an increase of industrial output of 6.2 per cent as against the estimate of 5 to 6 per cent during the year. Again, our foreign trade deficit has been the lowest in the past 12 years — having gone down — from an all-time high of Rs 921.20 crores in 1966-67 to Rs 550.76 crores in 1968-69 and to Rs 154.28 crores in 1969-70. The feature of the Fourth Plan, however, to which I wish to draw your attention, is the marked emphasis that is now sought to be "Diffusive Growth" as against mere accelerated advance of the earlier Plans. Last year, while speaking to you from this platform, I ventured to point out that if our Green Revolution was to succeed, a broader and broader base must be built up within our farm sector so that not only do we augment our food and agricultural output but we are able to ensure built-in stability of our price-structure which we have still to achieve.

In the industrial sector, starting with the much debated Report of the Industrial Licensing Policy Inquiry Committee, we have now a more purposeful

emphasis on a broader base through the modifications of the Licensing Policy announced in February and July last. This new policy aims at greater opportunities laid before the small-scale and the middle-group industries. There is again, since April this year, a statutory ending of the Managing Agency System. All these developments — not excluding the coming into force of Monopolies and Restrictive Trade Practices Act of 1969, constitute a challenge to the Managers as also the shareholders of Joint Stock Companies. This challenge of our times is not confined to increasing output or expanding business enterprises nor is it confined to developing countries like ours. Perhaps I could best summarise this argument of mine by citing a paragraph from a Memorandum presented by the Rockefeller Foundation — as the owners of a substantial block of shares of General Motors — earlier this year:

"We realise that for Corporations to exercise this leadership (in industry) they must continue to prosper and to grow and be profitable investments to their stock-holders. But to stop there is to stop short of moral

and civic responsibilities required of the leadership of industry in the present crisis in our social order. There are battles to be waged against poverty and inequalities which the Government alone cannot win. They can be won only if the status and power of . . . industries are fully and effectively committed to the struggle. What is needed from business is leadership which is courageous, wise and compassionate — which is enlightened in its own and the public interest and which greets change with an open mind."

While touching upon this wide outlook and responsibilities of business, I would also suggest that a similar change is urgently called for in leadership in the trade-union sector. Our sectarian gains may please us and our followers for a time — but if they are obtained at the cost of social objectives, they are bound to prove illusory.

ACCOUNTS

Sales have decreased from Rs 9,07,13,612/- in 1968-69 to Rs 7,23,31,551/- in 1969-70. The resultant profits for the year came down to Rs 17,12,754/- as against Rs 57,56,734/- in the preceding year because of the loss of production arising from strikes and go-slow and consequent reduction in sales aggravated by increase in expenses.

LABOUR

During the year under review, our progress received a setback because of the labour strike which lasted for nearly 80 days in addition to some 3 to 4 small strikes earlier. The total number of working days lost was about 120.

Till this year, we had several Trade Unions functioning in our Factory. It was this multiplicity of Trade Unions which, to a large extent, had contributed to unsettled labour conditions and which in turn adversely affected our production. Since April of this year there is one majority Union and so far the relations between labour and management have been cordial and production reasonably good. Let us hope in the best interests of all concerned, including labour itself, that we continue uninterrupted production.

FINANCE AND DEVELOPMENT

During the year under review, the Company repaid loans aggregating to Rs 10,76,356/- according to the Schedules of maturity. There has been an addition of nearly Rs 22 lakhs in respect of capital expenditure. We shall be incurring a further expenditure for Capital Goods amounting to Rs 38 lakhs

which would raise the capacity of our Plant by 60,000 tyres and tubes each per year also add several new types of tyres to our range of production. The trend in the country now is towards larger sizes of truck and bus tyres and consumer-requirement is for sizes 900 X 20 and above and, therefore, our production in that range has been stepped up by introducing two new patterns — one is Lugmaster tyre in nylon construction and the other Super Mileage. Both have proved to be very satisfactory in service as well as in consumer preference and this will make our production more market oriented.

We have obtained from the Government of India a Letter of Intent to expand our capacity to 6 lakhs tyres and tubes each per year. We expect to get the Capital Goods Licence shortly to put through this programme of expansion. The Industrial Credit and Investment Corporation of India Limited have, in principle, sanctioned to the Company an amount of Rs 49 lakhs to meet the necessary cost of imported plant and machinery for implementing the Industrial Licence issued to us for the manufacture of 2 million bicycle tyres and tubes each annually.

We have commenced the manufacture of Scooter tyres and tubes and our first scooter tyre rolled out on 10th April 1970. This tyre has also been very well received in the market. We shall in the very near future also bring out A.D.V. tyres and Tractor tyres.

NATURAL RUBBER PRICES

I trust our shareholders have had occasion to read the views expressed by various interests on the recent increase in the statutory floor price of Natural Rubber. As consumers of over 60 per cent of the country's usage of Natural Rubber, the tyre industry feels naturally concerned about the future price pattern of this raw material.

MANUFACTURING COSTS

Some of you are aware that there has been a substantial rise in the prices of rubber chemicals, head wire, cotton fabrics, tube valves, zinc oxide, fuel oil and electricity, incidence of higher purchase tax on Natural Rubber, and upward revision of Customs duties on some of the imported raw materials in Finance Bill 1970 plus countervailing duty on imported synthetic rubber and latex. Our wage bill has also shown a rise since November 1968 when prices were revised last. On top of all these, we have to absorb the octroi duties in certain important distributing centres and in case of some States an element

EXPORTS

We have widened our sphere of export activity this year to include several countries abroad to which our products have been exported for the first time. As export orders can be secured only at prices internationally competitive, I cannot help urging the Government, in the context of the foregoing paras, to evolve a machinery for not only making Natural Rubber but all other indigenously manufactured raw materials available to us at international price for export tyres and tubes because, as matters stand at present, there exists a wide gulf between the price we pay for these and what our competitors abroad pay for their supplies and this out-prices our product to the foreign buyer.

TRADING CONDITIONS

The automobile tyre market in general has been quite satisfactory. And considering the nation-wide recognition of the importance of road transport industry, road development programme of the Government, expected expansion of vehicle production, we can view the overall future of tyre industry with optimism.

ACKNOWLEDGEMENTS

Before I conclude, I take pleasure to express our sincere thanks to all our valued patrons, dealers and customers, to the Financial Institutions and our Bankers with whose co-operation and encouragement we have been able to successfully pursue our plans of progress and expansion.

I should also like to convey our gratitude to the Government of India and to the State Government of Kerala for all the assistance and encouragement given to us from time to time. My thanks are also due to all my colleagues on the Board and to our Technical Collaborators, UNIROYAL; Mr A L Freeland, Founder, Dayco Corporation, our erstwhile Collaborators, for his continued valued advice to the Company.

I take pleasure on behalf of my colleagues on the Board and myself in thanking our Officers, both technical and administrative, our workers at the Factory and the members of the Establishment and Sales Staff all over the country. Before I conclude, I feel it my duty to thank all our shareholders whose confidence and goodwill we have continued to enjoy and those of you who have taken the trouble to attend this Meeting.

JAI HIND

Polychem Limited

Statement of the Chairman, Shri Ramdas Kilachand

THE following is the Statement of Shri Ramdas Kilachand, Chairman for the Fourteenth Annual General Meeting held on Wednesday, 23rd September, 1970.

LADIES AND GENTLEMEN,

The Directors' Report along with the Balance Sheet and Profit and Loss Account of the Company for the year ended 31st March, 1970 has already been sent to you earlier.

YEAR IN RETROSPECT

I am indeed happy to state that during the year under report the Company has achieved good progress in several fields.

The expansion of the Styrene Plant to 14,000 tons per annum was completed and the expanded facilities were commissioned. This has resulted in increased production of ethylbenzene (an intermediate product) and styrene. For the first time, therefore, it was possible to sell significant quantities of ethylbenzene and styrene to outside customers, augmenting thereby not only the sales turnover of the Company but also helping the country in saving substantial amount of foreign exchange which otherwise was required to be spent in importing styrene and Xylene. Ethylbenzene has been accepted as a good substitute for imported Xylene by several paints and Dyestuff manufacturing firms.

Installation of Bulk Liquid ethylene storage and handling facilities were completed and commissioned. This unit as designed and installed is capable of handling enough quantities of ethylene required to produce 14,000 tons of Styrene per year. It is commendable that this installation demanding design and engineering skill of a high order was successfully implemented solely by the efforts of the Company's staff without any help from foreign or local consulting firms.

Highest production of Styrene enabled the Company to record highest production of Polystyrene during the year under report. This was the first year since past several years that we were not only able to meet the full requirements of various grades of Polystyrene of our valued customers but also commence exports of 10 per cent of Polystyrene production to Middle East, Burma and East Africa. In view of the same the Company has applied

for priority status for obtaining import licences to increase production.

The overall result of all the above development is reflected in the increase of sales turnover to Rs 5,25,33,000, a 30 per cent increase over that of last year. During the five months of the current year, the company has been able to maintain production of styrene and polystyrene near to installed capacities. Sugarcane molasses supply position was good and the distillery operations are also satisfactory. The partial switch over to use of petrochemical ethylene has released significant quantities of alcohol for outside sale.

FUTURE EXPANSION PLANS

In my statement last year, I had mentioned that the Company has received a Letter of Intent for establishing an integrated project for the manufacture of Styrene and Styrene based products. The Company, in response, submitted to the Government of India proposals for establishing these plants. These are under discussion with the concerned authorities and it is hoped that final decision on the pattern of the project as a whole involving the products mentioned above will be reached soon. The Company has spent considerable effort in pursuing this project and it will be recognised that with the expertise and technological experience it has in the field, it is in a position to implement the project most expeditiously once all the approvals are received.

Besides this large expansion scheme on the anvil, the Company has taken effective steps to manufacture Potable Liquors at the site of its Alcohol Distillery. Active steps are being taken to install a pilot plant for the manufacture of Divinylbenzene at the Styrene Plant, Bombay. Divinylbenzene is an important raw material for the manufacture of Ion-Exchange resins and is being imported presently. When the projects, as planned above, materialise, the Company with the increased and diversified product range will be poised for faster and greater progress.

GENERAL

With the overall good monsoon this year, indications are that we should have an equally satisfactory harvest as last year if not better. Such a healthy situation calls for a spurt of fresh in-

vestment to step up the production of consumer, intermediate and industrial goods to make up for the stagnancy and losses during the previous years of recession. Not only industries should be geared to meet adequately the entire domestic demand but if possible to create surplus for exports. While this is the prime need of the situation, it is indeed regretted that the Government through its latest industrial licensing policies and the spate of notifications on the subject that followed together with the Monopolies Act, 1969 has created several constraints and inhibitions which are likely to be detrimental to the accelerated industrial development of the country. These policies fail to take due notice of the compulsions of scale. Technological considerations apart cost factors alone dictate the expansion of existing facilities to their economically viable sizes and it will be only unfortunate if the existing units are not allowed to grow purely on ideological grounds. Such a policy will not only perpetuate the present high cost economy but also weaken further our competitive ability to export. To achieve the objectives of greater employment, accelerated industrial development, cheaper industrial and consumer goods and exports, it should be recognised that there is no other surer and faster way than providing free scope and opportunity to expand to units which have adequate expertise in technological, financial and managerial fields, irrespective of their size. Even at this late stage, it is hoped that Government will recognise the prospects of future industrial development and that corrective actions will be taken soon to ensure that each case is decided on merit, irrespective of the kind of organisation, big or small, dominant or otherwise. Thus we enter seventies with cautious optimism based on a fond hope that progress of no industry or unit will be inhibited purely on ideological grounds.

Finally, it is but proper that I end this statement with our thanks to the staff of the Company as well as of the Selling Agents for their fine performance during the year. Our thanks are also due to our esteemed customers for their continued interest in our products.

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

No 'P' form for Mauritius!

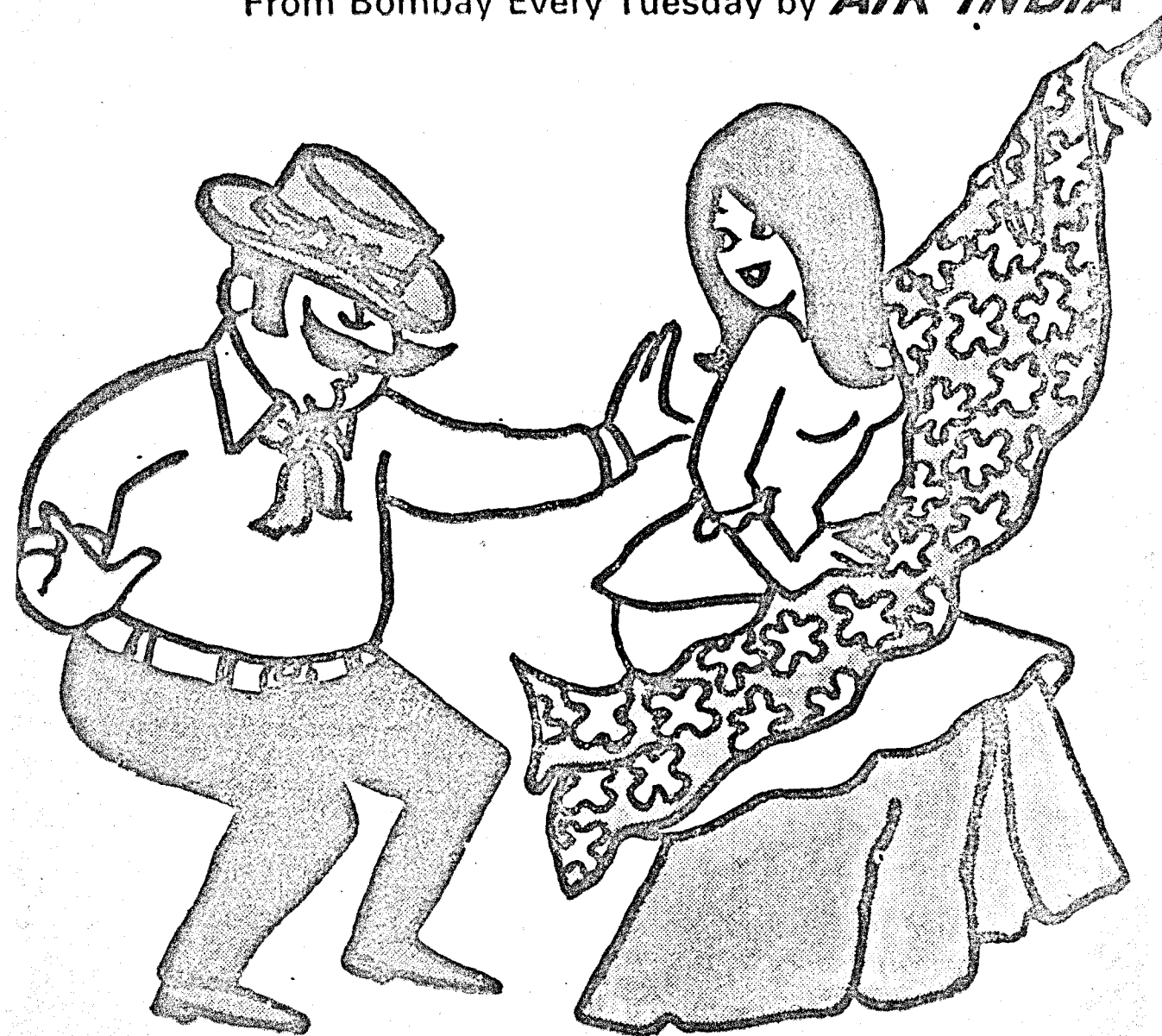
Now a bonus flight to Mauritius once in three years. No 'P' form is required to fly to Mauritius even if you have been abroad during the past three years.

With that extra something you know what!

So take off with me to the glorious white, sun-drenched beaches of Mauritius. Water-ski, goggle-fish and 'sega', to the rhythm of water splashing on coral reefs. Savour delicious food—French, Chinese, Indian.

Mauritius in just 6½ hours.

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**Will India reap
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That depends on the ideas she sows in agricultural development. Productive ideas will stress the need for plenty of water supply, use of high quality seeds, ample fertilizers...

To make the last a possibility, FCI are setting up fertilizer projects in Cochin, Durgapur, Barauni, Namrup... Each of these manufactures 600 tonnes of ammonia and 900 tonnes of urea a day.

FCI have often called on L&T for sophisticated equipment for their various fertilizer complexes. Basic design was from Montecatini of Milano. Detail engineering was done by the Planning and Development Division of FCI.

For the fertilizer industry, L&T manufactures heat exchangers, pressure vessels, rotary driers, evaporator crystallizers in various materials

of construction like stainless steel, carbon steel and alloy steel.

At Powai, L&T also manufactures cooling towers and switchgear that stands up to corrosion. Our factory at Madras specialises in Crane & Audco valves. And Engineering Construction Corporation (ECC), our wholly owned subsidiary undertakes construction work—civil, mechanical, electrical, including instrumentation. In short, the L&T group contributes design ideas, technical and manufacturing skill for the fertilizer and other major industries.

With over 6,000 employees, and a network of offices all over India, L&T works towards helping India reap a richer harvest in industrial development.



LARSEN & TOUBRO LIMITED, P.O. Box 278, Bombay 1.

தமிழ்நாடு ஆவணக்காப்பக நூலகம்,
எழும்பூர், சென்னை-600 008.

தவணைத்தாள்.

சே எண் :

ப. எண் :

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28 MAY	1991		

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